

20th May 2021

Document-B: Townsville Apartments Owners Briefing¹.

Summary:

1. How can strata home insurance premium prices keep increasing when the building sum insured risks have not?
2. The North Queensland (NQ) community titles scheme body corporate strata² insurance affordability remains failed for the last decade.
3. More than \$3 billion in NQ strata property value loss has occurred due to the Queensland Body Corporate and Community Management (BCCM) insurance regulation failures.



5. The fundamentals of homeowner insurance supply is twofold. Insurers buy the risk and spread the risk. Better put “*The fundamental and honourable purpose of insurance is to spread risk.* Michael Kirby said³, ‘*The sharing of risk is the essential brilliant idea of insurance*’. The NQ home insurance risk is not spread below the “Rockhampton Line” This insurance boundary defies the collective purpose of the national (home) insurance constitutional model⁴ for Australia.
6. In 2017 the Federal Treasurer tasked the ACCC Northern Australia Insurance Inquiry (ACCC) with 24 home, contents, and strata supply and affordability questions. The ACCC final report 2020 has clearly failed to do its consumer and competition protection job as it did not detect the three root causes of the NQ strata insurance market failure. The root causes are supply, regulations, and barriers. The NQ strata insurance market is now damaged as we believe is more focused on profit rather than on risk. The NQ insurers and not our BCCM are now dictating the current strata insurance market terms and conditions in NQ.

¹ E&OE, the information contained in this report has been obtained from a number of internet sources. The Townsville Lot Owners Group is a volunteer group that cannot be held responsible for errors and or omissions.

² This paper uses the popular apartment description word “strata” which also means apartment, lot, unit, community titles.

³ A34.16 General Insurance Background Paper-14 Dr I Enright, P Mann, Professor R Merkin QC and G Pynt. Undated

⁴ A35.10.p23 The Australian Constitution 9th July 1900

7. Health, Car, and Terrorism insurance risk is spread equally across all of Australia. Yet the NQ strata insured painfully endure the BCCM permitted Rockhampton Line barrier that prevents the rest of Australia (ROA) home insurance risk pond from accommodating our excluded NQ. This barrier discourages new insurance suppliers from competing in NQ, because of a false risk fear that NQ has more natural perils disasters than the ROA.
8. The Northern Australia (NA) insurance industry has purported and predicted that elevated natural peril risks exist in NA and that APRA and ASIC appear to have accepted this scenario. But our BOM⁵ and Dept of Home Affairs natural peril disasters data disagrees. This natural peril fake news hysteria of NQ has allowed, in numerous cases, the insurers to “third line enforce” price gouging policies with eye watering excess along with tear jerking poor profitability claims that NQ is a bad place to insure strata homes. Today this strata insurance gouging is suppressing the NQ economy and people’s futures up here. NQ will become closed for business if this insurance abuse can continue in its “unregulated” and unrestrained form. Our failed regulators need to cease insurance cosiness relationships and distance themselves and regulate to protect the strata consumers in NQ. Queensland strata insurance is compulsory The BCCM regulations deny their strata insurance consumers any home insurance affordability choice. House owners do have a choice and 86,000 have demonstrated their NA home insurance affordability choice in droves⁶.
9. A home insurance KPI⁷ “Affordability Insurance Factor” (AIF) will be introduced in this paper to improve the “affordability” argument with measurable detail using this AIF insurance factor as the fair comparison tool. This should help all NQ home insurance participants express clearly how disadvantaged the NQ strata insurance market really is.

The situation:

10. The purpose of the ACCC Inquiry was to solve the decade long residential home, contents and strata insurance market supply failure in Northern Australia (NA). During this time there have been some 12 Government Inquiries and investigations delivering some 463 recommendations, many of which may have home insurance affordability impacts on the strata community in NQ. This volume of recommendations highlights home insurance in NQ as a persistent problem where strata consumers keep getting home insurance abused. The Qld BCCM regulator remains mute on all 463 recommendations to date.
11. Our ACCC failed to obtain an impartial body corporate consumer tax invoice insurance premium evidence. Such evidence is required to balance the copious volumes of insurer data provided to the ACCC for the inquiry. The ACCC did not analyse nor report the consumer tax invoice evidence perspective of the NA insurance market failures⁸. Numerous findings in the bloated 592-page ACCC report⁹ we found to be vague, disjointed, obfuscated and in general not a friendly read for the consumer audience. We believe the ACCC did not fully answer the Federal Treasurer’s 24 Northern Australia Insurance Inquiry questions.

⁵ BOM - Australian Government Bureau of Meteorology

⁶ A14.6.p12 - ACCC 20% of the 430,000 NA houses are uninsured, for ROA the national average is 11% uninsured.

⁷ AIF paradigm - remember Miles per Gallon (MPG)? a neat effective 1970’s car comparison KPI method that allowed simple easy to deduce informative value for performance discussions when comparing cars. AIF compares buildings with the same simple clarity.

⁸ Nor did the 2012 and 2014 Australian Government Actuaries as they relied 100% on insure provided data for their failed determinations.

⁹ ACCC-2020 report-page7 to address concerns about “Affordability & Availability” were not discovered nor answered.

12. This failure by the ACCC activated a Townsville Lot Owners Group¹⁰ which set out and collected a volume of genuine strata tax invoice insurance details originally from 55 strata buildings¹¹. The collected insurance data now forms our case study body of evidence. Our current sample size is \$1.17 billion building sum assured value (BIV¹²) containing 2,200 lot owners. We believe this sample is a 10% representation of our Townsville strata market size. The ACCC reports there are 108 “big” strata bodies corporate in Townsville which each qualify as having a BIV of more than \$5 million and more than 10 lots. Our study has insurance tax invoice documents contributed from 40 of these 108 larger bodies corporates. Our bodies corporate are operated by volunteers and provide homes to a large group of citizens and consumers who are currently subject to extremely poor insurance behaviours and affordability. This paper is deemed as our community service contribution to make our state and federal regulators aware of the consumer side of the NQ & NA insurance affordability argument and that all previous government inquiries have common failures of not providing consumer evidence impartiality.
13. The ACCC failed in its chartered mission to protect the homeowner consumers in NA. The ACCC proposed market fix solutions are tepid at most, because the ACCC did not discover the root cause of the volume of insurance complaints which activated the inquiry. This ACCC report has ~~failed~~ damaged the 2015 Federal Government’s 51-point Whitepaper Development Plan for Northern Australia because it did not discover nor solve the insurance supply, regulations and barrier-imposed impairments holding back economic progress in NA.

The Problems:

The Root Causes

14. The Townsville Lot Owners Group believe the three root causes of the strata insurance market failure in Townsville and NQ are:
- Our ACCC is unable to detect the supply root causes of the strata insurance affordability failures.
 - Our BCCM insurance regulations are not working to protect the strata consumers.
 - NQ is wrongly disconnected from the national home insurance affordability entitlements pond by the “Rockhampton Line”¹³.

Market Size:

15. We believe the Queensland \$203 billion¹⁴ strata industry is in economic decline in Townsville and NQ. Townsville is estimated to have some 2,000 strata buildings worth around \$13.4 billion insured value containing some 20,000 residential voters.

¹⁰ Email – tsv.log.20@gmail.com

¹¹ Our body of evidence is still growing as more lot owners are sending us tax invoice information, We have just received 13 more buildings premium and sum insured documents. Making the sample group at 68 CTS buildings 12/5/2021.

¹² BIV = Building Insured Value or Building sum insured

¹³ A14.6.p33 – ACCC Rockhampton Line definition

¹⁴A25.3B. City Futures project page at cityfutures.be.unsw.edu.au/research/projects/national-strata-data-analysis

16. The ACCC indicate NQ as having 6,610 strata schemes in 2019. All have to be insured by BCCM law..
17. Numerous strata lot owners are saying they know or have experienced lot selling difficulties in obtaining desired sell price or no buyers interest due to the NQ insurance predicament. Some have mentioned \$100,000 value loss in their lot. For the NQ strata market valuation, a 10%-25% property value loss is our research estimate, this equates to around \$3.0 billion dollars in valuation damage is being caused by the Qld BCCM insurance regulations enforcement failures.
18. 17% of Australian population live¹⁵ in strata homes, these were once the most affordable national housing supply source and now may be finished as such in NQ. The aged, NDIS, families, retirees and singles may have to look elsewhere for cheaper accommodation needs in the future as the current NQ strata insurance affordability is discouraging new investment in new NQ strata housing stock. There is a perception the NQ home insurance predicament is denying NQ homeowners from participating in the Australian property boom of the last decade because the Rockhampton Line insurance barrier has kept customers south.
19. 14% of Townsville 186,800 population are estimated to live in strata accommodation.
20. Repeatedly since 2011 the Insurance coterie have proclaimed¹⁶ to the numerous governments inquires there is no insurance supply problem in NA. This can be now government disproved, If only the BCCM would disclose their NQ volume of ‘alternative insurance applications’ that the numerous insurance breached strata body corporates have reported to government. We bet all breached BCCM strata insurance applications are coming from north of the Rockhampton Line¹⁷.

Wrong numbers:

21. The ACCC reported to the Federal Treasurer that the average NQ strata insurance price is \$6,800¹⁸ which is nearly twice the rest of Australia (ROA)¹⁹ strata price of \$3,300. What is obfuscated here, is the ACCC failed to inform the Treasurer what these average strata prices apply to. Do these prices apply to either a strata building complex or to a single strata unit?
22. Our study finds the ROA single strata unit insurance is around \$516²⁰, the ICA has advised SEQ strata was once around \$534²¹ per lot. For Townsville, our study finds the average TSV strata lot insurance to be around \$2680 per lot. Our research indicates the NQ strata average insurance price is 5 times that paid by the ROA strata units. Intriguing the ACCC report numbers above appear to have inflated the ROA strata insurance price and deflated the NQ strata insurance price. If not corrected, this could create a distorted illusion that strata insurance pricing is not that bad in NQ. It would be good for all if the ACCC did these ROA and NQ averaged strata numbers again clearly depicting which is strata building and which is single strata lot.

¹⁵ A25.3A Higgins 2020 Australian strata statistics

¹⁶ A34.10.p4 – ICA 2018 to ACCC NAII stated Insurers have not left the market in northern Australia. No significant insurers have left the market in northern Australia in the past decade.

¹⁷ A14.6.p33 – ACCC use the 23.5° Tropic of Capricorn and Rockhampton latitude as the NA southern boundary. Many insurers use the 26th latitude as their NA insurance postcode northern supply boundary.

¹⁸ A14.6.p53 – ACCC the average for the rest of Australia of \$3,300. Average premiums were approximately \$6,800 in NQ.

¹⁹ ROA = rest of Australia = below the Rockhampton Line.

²⁰ City Futures project page at cityfutures.be.unsw.edu.au/research/projects/national-strata-data-analysis

²¹ A34.11 – ICA 2015 submission Northern Australia Insurance Premiums Taskforce The Treasury

Taxes and Commissions

23. Taxes, the ACCC reported per Table 3.7: GST and stamp duty revenue from all home, contents and strata insurance products supplied in northern Australia. For 2019 for NQ as follows.

- | | | |
|----------------------|-------------------|---|
| a. Stamp Duty | 9.9% | \$64.6 million |
| b. GST | 10% | \$ 65.3 million |
| c. Terrorism Tax | ? ²² | not reported by the ACCC? |
| d. Sales Commissions | 20% ²³ | \$130 million, in general the Broker/intermediary works for the body corporate and gets remunerated by the Insurer. |

24. More than 40% of a body corporate strata insurance tax invoice is consumed by others. This equates to

- ROA paying around \$206 tax/fees on their \$516 premium and NQ is paying \$1072 tax/fees on their \$2680 premium. This results in a nominal 436% tax/fee inequality north to south of the Rockhampton Line.

25. Good Brokers, Intermediaries and Body corporate managers who invoice their insurance sales remuneration fees and commissions separate from the insurance premium tax invoice, deliver their strata customers some 9.9% stamp duty savings. For example, a \$40,000 commission will deliver a \$3,960 stamp duty saving if invoiced independent of the insurance tax invoice.

26. House owners obtain no GST credits on their home Insurance, whereas many ABN body corporates do get GST credits on their strata insurance. In general, NQ delivers to government four times the tax collection per strata insurance policy than what SEQ²⁴ and ROA would pay. Some of these copious NQ tax funds should be reinvested to finance the modernisation of the BCCM and NQ natural peril disaster building mitigations programs.

27. We believe all Insurers collect GST credits on all insurance claims, the more claims paid delivers more credits claimed. The expensive insurance premium reinsurance costs we believe are a financial product with cost, but not with GST debits. The ACCC did not look at the GST funds spending balance for a typical disaster event cost and claims conclusion.

28. The ACCC reported ²⁵ \$4.2 billion in national Home-Contents-Strata claims costs were unable to be damage event classified. This is around 13% of the national claims total 2008-2018 total \$36.073 billion. (NA total unclassified claims were only \$40 million²⁶ for the same period).

29. Terrorism Insurance, the Federal Australian Reinsurance Pool Corporation (ARPC)²⁷, a public financial corporation operating with Government capital and backed by a \$10 billion Commonwealth guarantee. The Act is intended to be a temporary measure to allow the re-emergence of a private reinsurance market for terrorism risk. This 2003 Act has been temporary and has protected our insurers for 18 years now. Are the foreign insurers benefitting from this taxpayer support? From

²² ACCC - the Australian Reinsurance Pool Corporation (ARPC) was 2003 established to address a lack of terrorism reinsurance.

²³ ACCC NAI 2020 final report key Points 19 Page-501 and various other strata ratings web sites advise the same nominal 20%

²⁴ SEQ = South East Queensland

²⁵ A14.6.p129 ACCC Figure 5.15: Gross claims expense for all rest of Australian home, contents and strata products, 2008–2018.

²⁶ A14.6.p441 = ACCC Figure 16.18: Gross claims expense for strata products in northern Australia, 2008 - 2018, real \$2018–19

²⁷ A31.1 Terrorism Insurance Act 2003 – Review 2018 page-4

what our study has witnessed with this misfiring terrorism insurance cover is that no strata consumer has had disclosure transparency to explain the terrorism fee pricing mark ups and tax invoicing, nor does a PDS²⁸ exist explaining terrorism liability cover for proforma covers such as \$20,000 per dead person, \$200,000 per building damages, and if capped? At present the insurers are running this terrorism collection show without transparent fees disclosure and our BCCM have remained mute on how its strata insurance regulations and obligations to accommodate this terrorism insurance compliance.

Mother Nature:

30. The BOM reports 520 named cyclone events since 1967, with less cyclones this decade than the previous decades in NQ. The Insurance Council of Australia (ICA) and coterie have produced numerous billion-dollar natural peril disaster claims publications. See Appendix-B & C & D for natural disasters data obtained from numerous internet reports. We believe the intimidating data is unreliable as is not verified by government. Example, we find the following data conflicts on mother nature events and insurance damage.

- Eg-1 2017 Cyclone Debbie is ICA reported as causing \$1.565 billion in insurance losses with some 72,767 claims. Whereas the ACCC report page 210, only \$277 million for the 9,261 total claims costs.
- Eg-2 2019 Townsville Floods is ICA reported as causing \$1.269 billion in insurance losses with some 30,702 claims. Whereas the ACCC report page 204, only \$249 million for the 6,577 total claims costs.
- And the ACCC reported page 411, From 2008-2018 period, the total NA strata cyclone claims was 500 claims for \$17.9 million damages which includes cyclone Yasi (2011) and Cyclone Debbie (2017). The NA Flood claims were 75 claims for \$8.0 million costs for the decade for all Northern Australia. Townsville, we believe for the period had minuscule strata building damages and claims.
- A Federal Government Royal Commission briefing paper²⁹ cited Insurance Council of Australia (ICA) insurance supplied natural disaster damages information, that could possibly condition the Banking Royal Commission thinking on Natural Disasters Insurance. What content verification controls are in place to ensure such natural disasters data and information qualifies as accurate for inquiry and commission considerations?

31. Appendix-B, the Department of Home Affairs (DHA) Disaster Events data lists 556 natural peril disaster events since 2006. DHA list NSW as the most prone community for natural perils disasters event at 35% and Qld at 19%. DHA list Floods then Bushfires accounting for 70% of the national natural perils disasters occurrences. Cyclones provide a low 6% of national disaster events. We note NA & NQ may get the named cyclone, but in most cases, the following flood damage consequences are often delivered in the form of tropical lows forming south of the Rockhampton line and can deliver flood and storm damage all the way to Melbourne in some years.

- The insurance industry has also paid out significantly in claims following natural disasters. For example, insurance claims in the wake of cyclones Yasi (2011) exceeded \$1.5 billion and following widespread (Brisbane SEQ) NSW flooding of 2010-11 were around \$2.4 billion.

²⁸ PDS = ASIC stipulated PDS = Product Disclosure Statement, sadly replaced the previous "Derogation" requirements.

²⁹ A35.10.p3 2017 Royal Commission in Misconduct in Banking et al, Natural Disasters Insurance Treasury prepared background paper 20 undated –

And after cyclone Yasi, for example, the Australian Government³⁰ paid \$310 million in respect of 273,944 claims for disaster recovery, It is never made clear in the media announcements if Government disaster spending costs inflate the Insurance industry media claims cost values or are they excluded?

- **Anecdotal:** North Queensland homes are designed for tropical climates and tolerates numerous cyclones and 200mm rain events without disturbance. A 200 mmm rain event in Brisbane makes the front page of the news, up here it is ho hum. A cyclone makes the national news but does not make land fall. Damage yes destruction no, welcome to Northern Australia. Columnist must leave the climatic prejudice out of the Northern Australian insurance conversations.

32. Not well presented in the DHA data was the Hailstorms frequency and locations, this asks the question, does our Government have punctilious climate damage events details? Or does it rely on the Insurance Council of Australia (ICA) to continue to provide this natural peril detail and data that underpins so many natural peril disaster inquiries and consequential policy decisions of government.
33. This suspected defective climate data details and accuracies of natural disaster events is now acknowledged by Federal Government. In May 2021 they announced the formation of the new **Australian Climate Service**³¹ facility to better, faster and we trust will provide accurate climate and disaster impacts decision making data superior to how it had been made prior to this announcement. This is good, well done.

Regulations:

34. Q&A What regulator controls are in place that **“prevent home insurance prices from increasing when the insured risk has not increased”**?
35. Homeowners can simply drop out of the home insurance market to indicate their affordability choice. The ACCC reports 20% of NA properties, some 86,000 are non-insured and the ROA average uninsured is 11%. This evidence confirms NA residents have affordability issues with home insurance values, someone is getting the market wrong.
36. By law, regulations stipulate that all 49,821 QLD Community Titled Schemes bodies corporate **“must”** have BCCM regulated home strata insurance.
37. NQ strata owners therefore have no insurance product choice, they must buy “at any price”. perception is market signalled by our BCCM regulator. We believe our BCCM may have inadvertently signalled³² the strata insurance industry that the BCCM cannot help the body corporates with strata insurance supply consumer protections. The BCCM “Common Ground” published insurance market signals are:
- *“giving cover up to an agreed value”*³³.
 - *“two options: no cover at all, versus at least some cover”*

³⁰ Ibid page - 3

³¹ A5.9 Australian Government - BOM - Australian Climate Service media release.5th May 2021 .

³² BCCM Common Ground Newsletter No-22 August 2019

³³ Ibid

- *“alternative insurance should not be read as no insurance”.*
- *“a body corporate cannot comply with its insurance obligations, “clearly, it can if cover is being offered”.*

the BCCM PD-28 document³⁴ “Approval of Alternative Insurance” published the following insurance market signals as:

- *clause 3. “if the body corporate cannot comply with the required level of insurance, it may apply in writing to the Commissioner for authorisation to put in place alternative insurance”.*
- *clause 5.a “a proposal for a body corporate to ‘self-insure’ does not constitute alternative insurance and cannot be approved by the Commissioner.”*
- *clause 5.b “the fact that the required level of insurance coverage is expensive does not of itself mean the body corporate cannot obtain that insurance”.*
- *Clause 5.c “the approval of a request for alternative insurance does not constitute a ruling that the insurance is adequate or appropriate”.*

38. Strata insurance prices keep going up and the sum insured risk has no disclosed evidence of what risk element is increasing. ASIC we understand enforce the national insurance behaviours and conduct with the Insurance Contracts Act 1984. In testing this Act with the NQ market, we believe this Act is biased towards the back end “claims” aspects of the insurance contract and is not diligent enough at the front end “procurement” phase of the contract. Is who owns the insurance procurement agreement conversation? The customer or the supplier? Strata enforced insurance contracts seem to miss this fairness test and defies the proclaimed insurance code of practice “in utmost good faith” purpose. Houseowners have the freedom of choice to walk away from a bad home insurance agreement. NQ strata owners are not permitted that consumer freedom by our BCCM regulations. Our BCCM, our regulator takes no responsibility for their regulation’s failures that enable strata insurance price gouging and risk dilution consequences to occur in NQ.
39. The Royal Banking Inquiry 2019 made mention of the Regulators being too close to the Regulated. From our documents study we observed ICA fingerprints on some APRA, ASIC and BCCM media productions with a hint of endorsement. We think these closeness relationships should stop.
40. The Townsville Lot Owners Group have witnessed around 99% of Townsville Strata insurance premiums policies do not comply with the fifteen BCCM insurance regulations. Many have fine print damage liability price capping, many impose nonregulated non prescribed damage events conditions, huge reckless excesses, and various implied forms of “third line forcing³⁵”. The study group also went back to the market and asked numerous strata insurers for a simple “clean skin” BCCM compliant insurance, all declined to offer a compliant BCCM strata insurance. Online web home insurance quote engines make strata insurance applications so rigid they do not tolerate precise BCCM insurance product requirements. These web quote engines do try to upsell a BCCM hybrid inflated strata insurance product, that could expand their sales value process.
41. The ASIC Insurance Contract Regulations 2017 stipulates home insurance ‘standard cover’ as having some 39 prescribed damage events that are to be covered in a “standard cover” home insurance policy. Our Qld BCCM reduced the ASIC damage events criteria to 10 prescribed damage events. We note that Theft, Animal, Tree, Flood, and some other damage events are not prescribed. And neither ASIC nor the BCCM have ever prescribed “cyclone” as an insurable damage event. In NQ.

³⁴ A2.13 - BCCM Practice Direction-28 Alternative Insurance -28.07.2020

³⁵ Google = **Meaning of third line forcing** in English. **third line forcing**. > a situation in which a company will only supply goods or services if the customer agrees at the same time to buy other goods or services from another company suggested by the first one: Under Australia's competition law, **third line forcing** is illegal.

We believe every NQ strata insurance policy that has cyclone and cyclone excess imposed as a form of “third line forcing”, which we believe may be commercially illegal in the domain of the ACCC.

42. The Qld BCCM has 15 specified insurance regulations. For the 2020 BCCM Accommodation Module regulations only 3 of the 15 BCCM Insurance regulations require insurance product procurement, these are:

- [187] Common Property Assets (CPA) insurance
- [188] Building Insurance and
- [196] Public Risk insurance

The three products above are monitored and controlled by the four regulations below.

- [185] Definitions
- [186] AGM reporting
- [190] Building Insurance valuations
- [193] Excess

43. Cyclone and Flood cover are not BCCM prescribed as specified insurable damage events. Cyclone and Flood cover insurance are interpreted as optional, ie body corporate discretionary procured with AGM [186] controls and BCCM oversight. There is no evidence nor history of a NQ body corporate requiring a full replacement insurance from a flood or cyclone damage claim since 1997.

44. The insurers are forcing NQ body corporates to take out strata insurance with imposed cyclone cover with non-negotiable excess and “special” excess³⁶ obligations. These excess obligations per clause [193(1)] are tolerated as they are a BCCM permitted form of self-inflicted regulated “self-Insurance”.

45. Who is running the show? Insurance Binders, overseas and local insurance providers have rigid insurance supply “binder” protection agreements that dictate the strata insurance market supply capacity, terms and conditions and have no ability to comply with the BCCM regulations. This disrespectful behaviour is allowing an invasion supply of defective strata insurance products into NQ. The ACCC called them products of last resort³⁷. To test this claim, any Queensland body corporate should ask their broker, insurer and or body corporate manager *to provide a signed disclosure document for their AGM stating the proposed insurance products comply 100% with the 7 BCCM strata insurance regulations listed above. And that the insurance product offered has no sovereign risk of claims event payment failure.* This disclosure would greatly help the honourable unskilled body corporate volunteers to better understand their insurance PDS obligations. Better still, our governments should change the strata insurance regulations to either meet the foreign insurance binder demands or government, both levels must enforce, and insurance regulate properly and remove these NQ market restriction binders such as Cyclone and Flood and Postcodes.

46. The ACCC section 17.2, meekly condoned the Insurers for not complying with the BCCM insurance regulations by allowing the insurers to express their insurance products “innovations” to avoid derogations and beyond belief, the ACCC did not ask any insured strata customers were these insurance product innovations consumer beneficial?

47. Insurance companies that will not provide compliant BCCM strata insurance in NQ must be penalized for cherry profit picking the Australian home insurance landscape. Insurance existence

³⁶ Our study detected one in seven Big body corporates have an imposed aggregated excess of more than \$200,000, and 1 in ten Big body corporates have aggregated excesses obligations of more than \$400,000

³⁷ A14.6.p426 – ACCC ISR policies tend to be policies of **last resort**,

principle is about sharing the risk and Insurers buying the risk. If they cannot do this in the spirit of their Insurance Contracts Act 1984 “in utmost good faith” stipulation, then insurers should surrender their ASIC General insurance licence for gaming the NQ and NA Strata insurance market. We are not sure if our ASIC and BCCM allows the foreign insurance providers exemptions to comply with the General Insurance Code of Practice, and the consumer protections it offers.

48. The Australian Financial Complaints Authority (AFCA) report Insurance is the second biggest financial complaints collective in Australia, (AFCA report some 1,625 national home and strata insurance complaints registered federally in last six months of 2020, indicating some insured home owners are not happy somewhere in Australia.
49. The ACCC³⁸ report, insurers self-reported 31,186 breaches of General Insurance Code of Practice for 2019, up 128% on 2018. A paradox? this demonstrates the code is working well in reporting all complaints but is not working well in that the general insurance consumer world complaints are increasing pa meaning the code is not working.

The Facts:

50. The Australian Government Actuary (AGA) was commissioned to examine the causes of insurance premium increases in North Queensland in 2012 and 2014. The AGA produced three reports – two on strata title insurance (2012 and 2014) and one on home and contents insurance (2014)³⁹. Our AGA failed the impartiality evidence test as well. The AGA report they used only insurer provided data. The AGA did not use any NQ home or Strata tax invoices as valid consumer balancing evidence.
51. Where are the complaints? The ACCC did not report how many home insurance complaints have been made. No details of what type of complaints nor the analysis of the complaints. Nor did the ACCC report how many Alternative Insurance applications NA and NQ body corporates have applied for. Nor did the ACCC survey why body corporates and strata owners are not posting complaints with the AFCA regulator? Our study indicates an AFCA complaints system failing in that volunteer body corporate committees do not have skills and possibly the courage to file insurance complaints with the regulators. Discouraged may be the word we are looking for here.
52. **Cluster what?** In 2012 IAG Insurance submitted to the Treasury Residential Strata Title Insurance Inquiry⁴⁰ that strata clustering increases insurance risk. And went on to conclude that strata buildings have more damage risk potential than a single insured house. The IAG used a case study of an Airlie beach 197 strata unit building, \$150 million full replacement value insured building to illustrate the clustering and concentration of risk within this site creates a considerably higher exposure to an insurer. Yes plausible at the time. and the strata consumers there have paid the premiums for ever after. That strata building since then has been exposed to 2011 Cyclone Yasi, 2015 Cyclone Marcia and a near direct hit in 2017 with Cyclone Debbie. How much cyclone claims damage has been incurred? Was full insurance replacement value required? The ACCC reports NA had only 500 cyclone claims costing only \$17.9 million for the decade 2008-2018. This includes \$12.7 million for Cyclone Debbie. Standalone House cyclone damage claims for the same period was \$1400 million. We believe IAG got its 2012 cluster model wrong, and the strata owners in 2012 may have began

³⁸ A14.6 ACCC-2020 page-541

³⁹ A35.10.p16 201 Royal Commission in Misconduct in Banking et al, 2017. Natural Disasters Insurance Treasury prepared background paper 20

⁴⁰ A34.22 – IAG 2012 CGU Insurance Limited Submission to Inquiry into Residential Strata Title Insurance

paying premiums marked for this cluster excess damage prediction. Ten years of empirical claims damages testing, and analysis now prove that NA strata complexes are 98.7% more cyclone damage resilient than standalone exposed houses. NA strata clustering is now ACCC-2020 proven that strata buildings are an exceptionally low home insurance risk. The ACCC went on to prove that strata buildings are 97.8% more flood resilient than standalone houses.

53. A fire will destroy a building and a cyclone will only damage a strata building. The QFES⁴¹ has mandatory strata building fire safety regulations to ensure strata buildings are of less fire risk than houses. To date such regulations are working well, as we know of no fire event that has caused a NQ Strata building to make a claim for full replacement insurance.
54. Yet for natural peril disasters, we know of no record of a NQ strata building making a full replacement value insurance claim since 1997. This indicates the BCCM regulation [188] may have been 1997 originally designed to be “gold plated” for natural peril disaster events back then. Today proven in time, this natural peril damage event full replacement value is not economically designed for the building damage risk protection intended. Unregulated Natural peril insurance cover should be a body corporate “level of cover” decision and not the BCCM regulated full value replacement imposition.
55. The ACCC report references “*Source: ACCC analysis of data obtained from insurers*” some 199 times in the 592-page final report. The ACCC did not report on obtaining any NA actual insurance premiums tax invoices and policy documents from the strata insured community to balance all their insurer supplied data. The report sadly fails the consumer impartiality test necessary for trusted and truthful insurance investigation outcomes.
56. The ACCC report Table-16.2, that there are 6,610 Strata schemes in NQ, and that 83% are ten or less lots per Strata complex. This data deviates much from the BCCM 2016 CTS Qld statistics that place 65% of all Strata complexes as having more than ten lots.
57. The BCCM “Common Ground” report a Community Titles Scheme decline of 625 schemes, (15,975 lots) have left the Queensland economy in 2020. The ACCC report Figure-16.27: indicates for 2019 a 30% decline in new strata building insurance policies in NA. Which is nonsensical. Every existing body corporate must have compulsory insurance renewal each year. To have a decline in the mob, means more body corporates must have shut down than new ones entering the strata insurance market.
58. For the period 2007-2019 the ACCC reports per Figure 6.8 NA strata insurance gross premiums earning were \$519 million and per Figure 6.18 reports claims are \$199.9 million. This results in an insurance gross loss ratio Strata GLR of 38.5% which means the insurers derive a 61.5% gross profit margin in NA. Incredibly the ACCC report a different Strata GLR of 74% for NA and 56% for ROA. The gross profit truth is distorted for NA. The local study sample found the Townsville to date, illustrates Townsville Strata GLR to be around 10%, which indicates a 90% gross profit margin for Townsville strata insurers. The ACCC⁴² reported in their insurance data collection processes that “*instances where not all insurers were able to supply the information we requested, particularly in relation to premium components and premium adjustments. Our analysis and findings should be*

⁴¹ Queensland Fire Emergency Service.

⁴² A14.6p36 ACCC-2020 NAII report “information collected.”

interpreted in the context of these limitations!” It would appear the ACCC accepted this inquiry impairing behaviour!

59. We encourage all body corporates to get a hold of the insurance claims history for the last five years and do two things, (1) check it is correct and (2) compute your GLR and do this every year as a standing motion in your AGM. This ensures improved insurance performance visibility to all strata owners and informs prospective new purchasers that insurance performance is actively body corporate monitored annually.
60. The ACCC report per chapter 3.0 that:
- NA Home Insurance increased 178% from \$680 in 2007 to \$1900 in 2019.
 - ROA Home Insurance increased 52% from \$592 in 2007 to \$900 in 2019.
 - NQ strata insurance increased by 300% from 2007 to 2012. The ACCC **did not** report any strata price or percentage increase numbers from 2012 to 2020, an amazing data omission occurs here. No starting 2007 NQ strata average insurance price and no final 2020 NQ average strata insurance price or compounded % increase have been reported to the Federal Treasurer and to our NQ Politicians to enable them to better understand our NQ history of strata insurance pain!
61. Then the ACCC produced an annoying strata price obfuscation by reporting the average 2019 NQ strata insurance is \$6,800 and for ROA it is \$3,300. But as mentioned earlier in above in this paper. The ACCC does not report if these two averaged strata prices are for a single lot or for a whole strata building complex. These two average insurance prices as presented are therefore meaningless to the Northern Australia Insurance Inquiry objectives.
62. What is striking in the ACCC report is from 2008-2018 for the nominal 300,000 body corporates, they depict the national body corporate cyclone losses as \$1.7 billion, flood as \$1.82 billion and incredibly, theft losses are near double at \$2.68 billion and fire damage losses are higher at \$5.57 billion. Interestingly, NA Strata cyclone loss is \$17.9 million, Flood is 7 million and Theft is \$300k.
63. The ACCC did report per Figure-3.32: The average premium and premium per \$1,000 insured for strata insurance 2019. This ACCC average premium is a “normalisation” home building insurance comparison method that divides the Risk purchase premium \$ by the Building Sum Insured Liability \$ amount. Then multiply this risk/liability ratio by 1000. This derived factor can be now called the Australian Home **Affordability Insurance Factor** (AIF). One can now use this AIF to equally compare building risk insurance costs anywhere in Australia. (see Appendix-E.)
64. The ACCC reports per Figure 3.33: the national ROA strata insurance average premium per \$1000 sum insured AIF = 0.99 in 2019. , example for a ROA \$250,000 building sum insured single lot, the premium will be around \$250.00 pa. For a ROA \$10 million building sum insured strata complex, the premium should be \$10,000 pa. both strata scenarios have the same affordability factor of 0.99. For NQ, the ACCC Figure 3.33 AIF is 2.6 which means a \$10 million building sum insured strata complex is paying a strata premium around \$27,000 pa.
65. But our Townsville strata study case produces a tax invoice evidence affordability average AIF of 5.2 which is closer to the “as found” study mark for a \$10 million building sum insured building in Townsville or NQ or NA, who will be paying around \$52,000 insurance premium pa. The ACCC should be using this AIF=5.2 affordability factor as proof NQ does have a real insurance affordability problem that can now be measured. The ACCC report has deflated the real insurance affordability in NQ for strata buildings. Why?

66. If our ACCC cannot precisely report the following five strata economic data sets for the last decade

- the actual number of Strata buildings in NQ pa.
- The actual number of Strata lots in NQ pa.
- The total strata insurance tax invoiced premiums paid in NQ pa.
- The average strata scheme and average lot NQ prices paid pa.
- The actual number of NQ strata insurance claims made and paid pa.

Then the NQ residents and political decision makers have a regulatory information feed problem that the federal regulators do not actually know what is going on in the strata insurance market in NQ. If this above data were publicly available, the entire ACCC inquiry may not have been taxpayer required in the first place. Having relevant NQ strata insurance facts made available in the public domain would enable all strata insurance market participants to make better strata insurance outcome decisions and could have done this so easily a decade ago and extinguished the affordability problem back then.

67. Because the ACCC cannot assemble and present the NQ Strata insurance facts, our strata community must seek consumer protection from our Qld BCCM regulator who controls our home strata insurance world. We need the BCCM to responsibly hold regulated copy of every strata insurance tax invoice record to make sure our BCCM is monitoring its regulated strata insured flock. Actively monitoring from day 1 of the Act 1997, would have avoided the NQ insurance affordability pains of the last decade.

68. The Townsville strata collective building insured value is estimated \$13.4 billion. Our study indicates Townsville generates an estimated \$54 million pa in premium revenue for the insurers. The ACCC indicated the whole of NA generates around \$60 million. We find a big discrepancy in the accuracy of NQ and NA annual insurance premiums harvest that NQ and NA strata locals fund every year.

69. Suncorp have reported that NQ does not have a pricing problem it has a risk problem. Without evidence we think Suncorp is wrong for producing this economy damaging remark about our NQ and NA. 1/18th of Australia's population lives up here.

THE REAL PROBLEM

Suncorp notes concerns that are raised from governments, communities and customers about the cost of insurance in this important region. There is no doubt that people in Townsville, Darwin and Broome are paying on average more for home insurance than those living in Brisbane, Sydney and Melbourne.

However, it is important to understand that price is merely the symptom.

Northern Australia has a risk problem, not a pricing problem.



70.

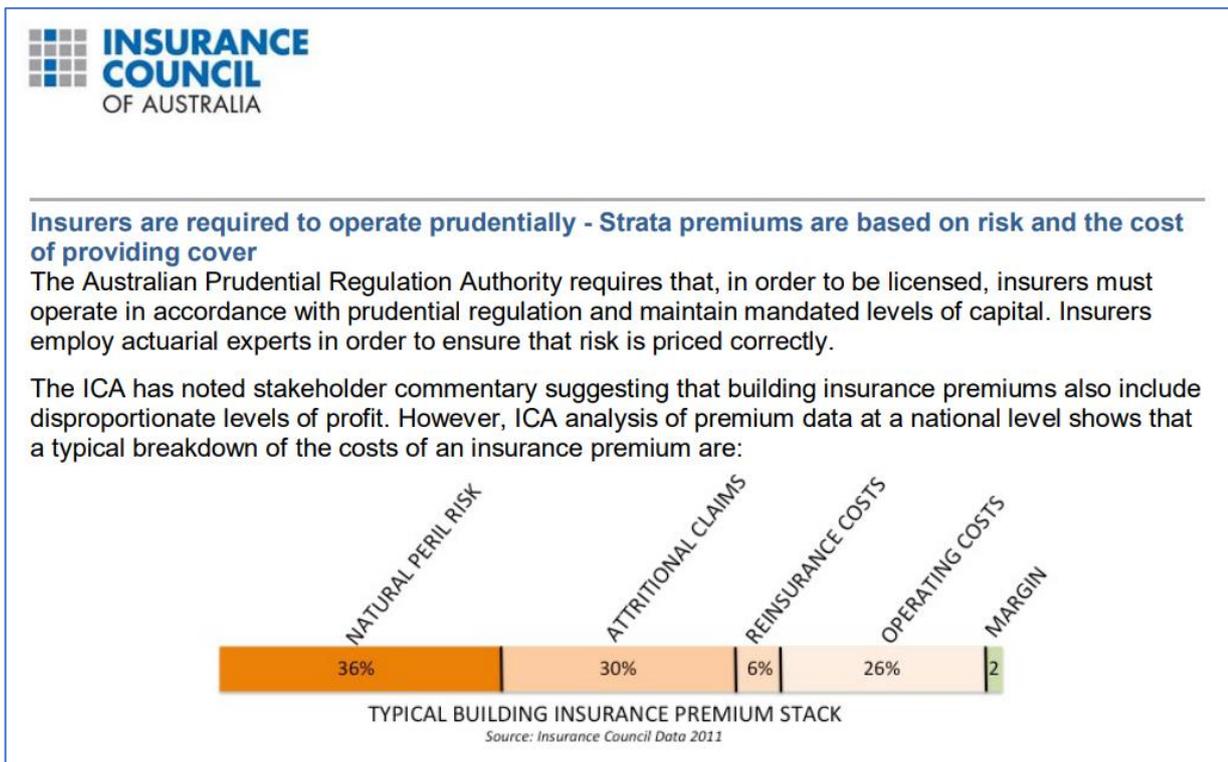
Legislation

71. The QLD Fire Emergency services is a good regulatory model where “proactive” fire regulations protect our community. We understand our QFES have regulatory enforcement powers to visit, inspect and discipline non-conforming body corporates and non-compliant suppliers and contractors who could put at risk building fire safety. Plus, QFES also has unique volunteer support and protection regulations to harness the volunteer contributions to further support the QFES community fire safety objectives. Plus the QFES account and report every fire occurrence in their annual report to government and public.
72. The recent Aged Care Royal 2020 commission has now addressed their organisational management capacity constraints starting with the changing from a single incumbent commissioner to a management team of five specialist commissioners. More organisational horsepower we hope. 21% of Queensland 498,000 strata resident population are aged over 60, the elders may need some regulated home insurance affordability protection to enable them to reside and enjoy their strata homes long as possible.
73. Australia’s health insurance and car insurance have nationwide uniformity in pricing. National health insurance also has regulatory controls on price increases. At state level, our Queensland Government has its own stable of insurance providers such as Work-Cover, QBCC and the Queensland Government Insurance Fund. The regulatory insurance talent that exists here could support our BCCM. Not all insurances issues require Federal insurance regulation, enforcements, or interventions. And our Health insurance and Car Insurances function well and are nationwide and do not experience the Rockhampton Line type trading barriers.
74. Our BCCM is in control of the Queensland \$203 billion dollar community strata residential housing economy. We believe our BCCM has a staff of around 30 people and a single commissioner. A rule of thumb for organisational populations is around one person per billion-dollar assets under control. At present the BCCM has an estimated 100,000 body corporate committee volunteers under regulation to perform and comply, yet there is no obligation nor commitment from the BCCM to protect these important committee volunteers. We believe the BCCM has not truly opened and rolled out the contents of the BCCM Act 1997⁴³ nine “secondary object” obligations toolbox. Namely consumer protection and committee discretions empowerment to decide and push back on insurance issues under the banner of changed circumstance being permitted under the Act.
75. Our BCCM requires a “legislative modernisation program” to accommodate full delivery of the Act secondary objects, to protect and appreciate the volunteers and empower the body corporate committees with the AGM controls and the BCCM oversight to rest back control of the NQ strata insurance supply with regulated and unregulated insurance product choice discretions being made at the committee level.
76. The BCCM has to modernise. The BCCM has been mute since 2010 on our troublesome NQ strata insurance matters, the BCCM has missed many opportunities to comment, participate and advocate on the 436 northern Australian insurance recommendations for the last decade. The current NQ strata insurance problem is not going away until the BCCM takes back ownership and delivers strata community leadership. By modernising the BCCM it enables the BCCM to strategically catch up on fellow Queensland and Federal departments who are actively future proofing their public service departments for climate and social changes and challenges.

⁴³ Qld Body Corporate and Community Management Act 1997 – part-2 [4] secondary objects

Premiums: The Fix

- 77. The ACCC average premium per \$1000 sum insured, home affordability Insurance factor ROA AIF = 1.0⁴⁴ for the 300,000+ strata buildings in the rest of Australia. And ROA Houses AIF=2.0⁴⁵. Our study to date confirms and agrees with both ROA home insurance affordability factors.
- 78. For the NQ AIF we have a disagreement that the ACCC report a AIF = 2.6⁴⁶ and our NQ study reports an AIF of 5.2. We will use the AIF = 5.2 as we have seen enough tax invoices to proceed with this NQ insurance affordability factor as solid.
- 79. **Example** - A \$20 million ROA strata sum insured building would pay \$20,000 pa insurance premium for standard cover. The same equivalent \$20 million sum insured building in NQ would pay \$104,000 pa. What changed? The buildings are “**materially**” the same. Basically the building above the Rockhampton line pays the same \$20,000 for the building sum insured ROA AIF equivalent, and then pays an additional \$84,000 for the natural peril disaster perceived risk for damage.
- 80. How did the insurers work out this \$84,000 extra risk component value and justify such a lop-sided invoice for its workings are never disclosed.?
- 81. However, the ICA did present the premium design “stack” pricing model figure below to the House of Representatives Standing Committee on Social Policy and Legal Affairs, 2012 Inquiry into Residential Strata Insurance affordability. The ICA analysis of premium data “stack” at a **national level** shows that a typical breakdown of the costs of an insurance premium “stack” as,



⁴⁴ A14.6.p82 ACCC Figure 3.33: Average premium per \$1,000 sum insured for strata insurance, 2007–2019.

⁴⁵ A14.6.p63 ACCC Figure 3.11: Average premium per \$1,000 sum insured for home and contents insurance products, 2018–19.

⁴⁶ A14.6.p82 – ACCC Figure 3.32: Average premium and premium per \$1,000 insured for strata insurance, 2019

82. To apply the national “typical building premium stack” model above to our example. We need to split the NQ \$104,000 premium example used above prices as follows, Portion A = \$20,000 and materially equals ROA AIF=1. Portion-B then becomes the \$84,000 NQ premium penalty portion for strata living in Northern Australia.
83. The NQ strata property exemplified above purchased portion-A should provide the insurer a “stack” 2% profit margin for supplying this premium that factors in 26% operating costs, 6% reinsurance costs, 30% attritional claims costs and a 36% natural peril disaster protection all for the same ROA material sum insured price. This works and is fair and this “stack” has proven to deliver ROA strata affordability since 2007⁴⁷.
84. The NQ outstanding penalty Portion-B \$84,000 could be paid as 4.2 times Portion-A equivalents that delivers a (2% + 4.2x2%) profit upgrade for the insurer, now as a 10.4% profit on the \$104,000 NQ premium. To continue the pain, the NQ revised reinsurance costs would then become 31.2% in this premium “stack” model multiple format.
85. Alternatively, the NQ property buys the standard ROA stack portion-A for \$20,000, which covers all the insurer’s costs of business as per the stack above. The Portion-B **\$84,000** then becomes a free standing **uncoupled** unregulated 100% natural peril risk disaster cover premium. Which is the only risk variable and is insurer penalty priced at a specific AIF = 4.2 unique to NQ.
86. For Natural Peril Risk and Reinsurance costs listed above in the stack, we believe three things happen here, dot point 4 we are not sure.
- the insurer predicts what the natural peril(s) disasters will be a year ahead.
 - The insurer factors in the price peril funding pool insurance model and invoices strata’s accordingly.
 - The event occurs and the insurers pays out as insured as policy agreed.
 - The insurer predicted wrong, and the disaster event(s) does not occur. Do the insurers give the insured a refund? The Banking Royal Commission mentions it was financially not right to charge fees if no service is delivered. 15 cyclones were media predicted and modelled for 2020⁴⁸? Not all made it, yet the NQ strata insured may have already paid damages protection for the 15 cyclones still on their way.
87. In summary here, we believe the insurance industry for the last decade has struggled and found it too hard for the insurance companies to predict and model the natural peril disasters risks and consequences. We believe the BCCM should enforce its incumbent regulations and take all-natural peril disaster insurance unregulated requirements off the table, (ie cyclone and flood banished). This action then allows the insurers to multiply and compete and provide for the lower risk and better understood BCCM regulated insurance 10 damages events as prescribed. This is achievable as is now proven by the ACCC promoting the ROA AIF =1 as adequate and affordable for all of Australia.
88. Using the example above **\$84,000** uncoupled unregulated 100% natural peril risk (cyclone, flood) disaster premium penalty **Portion-B** with its NQ specific AIF = 4.2. The body corporate is then able to seek an AGM decided natural peril damage insurance cover at a price commensurate with the sum to be insured. The body corporate can seek such unregulated cover either from the incumbent NQ insurance fraternity or explore Mutual Insurance or Self Insurance or seek emerging cover from the

⁴⁷ A14.6.p82 ACCC Figure 3.33: Average premium per \$1,000 sum insured for strata insurance, 2007–2019.

⁴⁸ A11.15 University of Newcastle September 2020

forthcoming newly announced (2021) Federal Government \$10 billion Natural Disaster Reinsurance Pool using proven co contributions models.

89. **NA Reinsurance** – 3rd time lucky? In 2011 the Natural Disasters Insurance Review (NDIR)⁴⁹ after the Qld flood disasters proposed a government funded discount and reinsurance system, killed off by the Productivity Commission. In 2015 the Northern Australia Insurance Premiums Taskforce (NAIPT) proposed NA home insurance solutions in using the Commonwealth Balance Sheet for reinsurance pool or a mutual insurance pool, killed off by numerous insurance against submissions⁵⁰. The Federal Government has recently announced a national \$10 billion reinsurance fund for natural disasters is to be established. This is good.
90. The \$10 billion Government Australian Reinsurance Pool Corporation (ARPC) was established in 2003 to address a lack of terrorism reinsurance, to date has been successful, the three subscription options have grown the reinsurance fund some 30% to more than \$13.5 billion. It works and the insurance companies enjoy this support and protection and profit. Who would have said Federal intervention into insurance markets is a bad thing.

Mitigation:

Mitigate what?

91. Who has all the information on disaster damaged buildings?
92. Who decides what gets mitigated first?
93. Can the strata bodies corporates join in?
94. **Information.** Good information enables good decisions. And old MBA adage “If you cannot measure it you cannot manage it”!
95. **WHAT IS POLICY-IN-FORCE DATA?**
Policy-in-Force (PIF)⁵¹ data is information that describes the actual purchasing of insurance products by policyholders at address level. This data allows users to avoid speculative and extrapolated assumptions about insurance premiums based on media reporting and individual quotes, by referring to the actual purchase of a product for a building or other insured asset.
PIF 2019 comprises 12.9 million geocoded policy records for Australia, representing an estimated 96% of all policies currently in force. Policies include commercial, strata, home, contents, landlords, SME and ISR. Each policy record relates to a single building and contains the following key points of information: • Building year of construction • Sum-insured purchased by customer • Excess amount selected by customer • Premium paid by customer.
96. PIF⁵², Policy in Force Data. This new data is crucial evidence to understanding the nature of insurance pricing in Queensland and to designing a response where one may be needed. ICA

⁴⁹ A35.10.p6 2017 Royal Commission in Misconduct in Banking et al, Natural Disasters Insurance Treasury prepared background paper 20 undated –

⁵⁰ Ibid

⁵¹ A10.32 – ICA 2019 Mitigation and Policy in Force Analysis paper

⁵² A34.11 – ICA 2015 submission Northern Australia Insurance Premiums Taskforce The Treasury

members have provided ICA with address level policy data in Queensland for over **900,000** individual home building and residential strata buildings.

97. At a 2019 Insurance Hazards conference. An APRA made an on stage a 2019 Climate Change public comment⁵³ *“That more spending was needed on climate risk mitigation and protecting Australia’s north against natural disasters, APRA said the fundamental problem facing Australia’s insurers was increasing occurrence and severity of natural disasters. And went on and mentioned “Hundreds of millions of dollars each year are spent on disaster funding, about 97% is spent towards clean up and recovery, with only 3% directed to mitigation and prevention”.* Addressing this imbalance, APRA’s public endorsement here did not propose any solutions.
98. There is a federal Australian Disaster Resilience Knowledge Hub. The Federal Government Department Home of Affairs hosts the “Australian Emergency Management Institute” (AEMI) which we understand collects disasters data for government. The Federal Productivity Commission (PC) reports⁵⁴ that there are two main sources of publicly available Australian data on natural disasters: the Insurance Council of Australia and the Australian Emergency Management Institute.” The Productivity commission prefers to use the ICA disasters datasets as is complete, the AEMI data sets are inferred as poor quality. No comments were made about veracity of the data used by our PC.
99. Our study believes it is time the home insured mitigation nation needs a government natural disaster **“Oracle”**
100. To better protect our trillion-dollar home assets market from natural disaster damage. A national repository is required. To store, record and verify all-natural disasters events, claims cost and clean up damage consequences to street address level. Creating such a public access trusted repository will enable better national, state, local council, and homeowner disaster mitigation decisions to be made. The wider billion-dollar mitigation participant community would also benefit from access to such street address damage incurred and if reoccurring data. Our Federal government has already moved with the **Australian Climate Service** initiative, now we need the ICA to join the national mitigation effort and contribute their ICA PIF data once it has been verified. Only the property owner is qualified to validate the PIF held street address insurance data is correct. There is no consumer protection here if the consumers cannot access and correct their property PIF insurance data is correct. A possibility of some typo errors existing amongst the 900.000 Qld PIF classifications may cause wrong property risk premium perceptions, calculations and over payments.
101. Since **2013**, the Federal Government has committed some \$30 million mitigation spend to the Queensland Government under the Natural Disaster Relief and Recovery Arrangements (NDRRA) program to support local projects that build the disaster resilience of Queensland communities.
102. A Suncorp/KPMG 2014 paper⁵⁵ promotes a mitigation benefits cost ratio that depict for every \$1.00 cyclone mitigation dollars spent, \$2.40 is avoided in cyclone recovery losses.
103. Since 2015 the ICA⁵⁶ wanted a Government mitigation to spend \$361 million for a Mitigation Assistance Scheme MAS program to retrofit vulnerable buildings.

⁵³ A4.5 The Australian 25/9/2019 APRA Natural Disasters a growing risk. Insurance Hazards speech. 2019 A4.7p 2019 APRA conference insurance warning

⁵⁴ A35.0p19 Productivity Commission Natural Disasters Funding Arrangements 2014 box.3.1

⁵⁵ A34.3 Suncorp/KPMG paper 2014 Mitigation Strategies Benefit Cost Ratio page 243/288

⁵⁶ A14.4 ACCC-2018 NAII report page 244

104. 2019, The ICA⁵⁷ wants the government to fund a \$20 million new “Geoscape” National Building data base to improve building mitigation. Their paper demonstrates a sample street address home insurance profile in Cairns. The ICA have requested that Councils and Government to freely contribute and populate their Geoscape product, with no mention of title or public access and mutual benefits of sharing their taxpayer provided data base.
105. Can the NQ body corporates join the national mitigation conversations and efforts with funds and people? We believe all home insurance data collected by the ICA has been already paid for in full by all policy holders. If the national researchers, building designers and Body corporates et al, could get their hands on the national libraries of premiums and claims histories as mentioned above. This would allow body corporates to better plan natural disaster building resilience programs. The Qld body corporates have a matured AGM process that would easily accommodate sinking fund mitigation budgeting with the in-place AGM spending controls and governance ensured BCCM oversight. Bodies corporates could co-fund mitigation programs of say \$1 per \$1 with State and Federal support that would benefit the strata residents, lower the strata risk for the insurers and reduce the clean-up costs for governments.
106. National Home Insurance Data base. It is suggested Federal and State governments should hold off on new mitigation funding until some clarity of who owns the title of the information, public access, insurance benefits and conditional that ICA share its PIF data bases with government and all stakeholders. Such will enable valid natural fact checking at street address level and then will quickly qualify the data base as a national mutual treasure to underpin all future natural disasters mitigation policies and strategies with a much higher data confidence.
107. The Economist⁵⁸ claim “*The short-term nature of most insurance contracts deters insurers to invest in mitigation investments due to their competitive nature they cannot guarantee return on mitigation investment if a consumer goes to another insurer*”.
108. To date, strata fire risk mitigations and wider community natural peril disaster mitigation efforts and expenses we believe are being consumed and not premium rewarded by the insurance industry.

What we want fixed.

109. The BCCM to modernise itself and its the strata insurance regulations.
110. The BCCM to repair the NQ strata insurance market is regulates.
111. Removal of the Rockhampton Line
112. Invite the ACCC to visit Townsville NQ and repair their report with our ‘solid’ data.
113. Upgrade the 24-year old BCCM Act from being a legislative constrained reactive “disputes regulator” to becoming a modernised and set free “proactive” advocator, empowered to grow and future proof the \$203 billion Queensland community titles strata economy.

⁵⁷ A10.29 ICA Mitigation PIF Policy In force Analysis 20.12.2019 Geosource Data Globe paper. 21 pages

⁵⁸ The Economist 21.11.2019

114. We want the BCCM three regulated insurance products compliance to be enforced onto the insurance suppliers.
115. We want the BCCM Act 1997 “secondary objectives” AGM community discretion to elect what level of “unregulated” non prescribed natural peril insurance cover (flood and cyclone) we want and where we source it from.
116. We want our BCCM to deliver on the BCCM Act 1997 nine secondary objects.
117. Would like the BCCM to review all 436 recommendation of the last decades insurance, natural disasters inquiries and royal commissions that may impact on the BCCM regulated strata insurance consumers. And then advocate the implementations as required to the QLD strata owner audience.
118. We want our BCCM to advocate and protect the 100,000 body corporate volunteers who promote and obey the BCCM regulations. I.e. join us to fix this insurance plight in NQ.
119. Like our QFES annual fire safety monitoring, we want our BCCM to consumer connect and inspect all strata insurance records annually. This strata insurance condition data base monitoring will better connect our regulator to the regulated. Someone is then listening and witnessing.
120. Federally, we would like APRA to separate the national “regulated” Strata Insurance accounts from the National “unregulated” Home insurance accounts reporting’s. We, like our ACCC struggled at times to interpret the vagaries between the two accounts in the data the ACCC report presented.
121. BCCM Option-2: Do nothing – the consequences are too numerous to list.

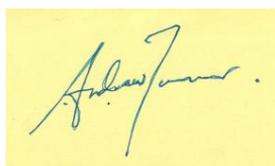
Conclusion

122. The NQ insurance supply crew have had a decade on the inquiry stage advocating all is well for the NA home insurance market. Time finally has proved them wrong as the 2011 insurance market failure has continually escalated in that time and is tired of appeasements. 12 inquiries and 436 recommendations over this same period empirically indicate our insurers are struggling to natural peril disaster insure NQ and NA. Is it time now for governments to stop listening to the ICA and start regulating the ICA?
123. Our strata insurance market failure could be defined as the NQ (& NA) strata home insurance consumers cannot get affordable supply and compliant and optional insurance cover when compared to the ROA strata insurance cost and risk baselines and standard covers.
124. The NA natural peril disasters risks have not increased. Insurers lack NQ consumer empathy in how the risk premiums are modelled, predicted, and invoiced. NQ premiums may have been wrongly paid for in advance of the disaster event not occurring.
125. **Certainty:** The ACCC reports the rest of Australia strata buildings have a long history of having a settled insurance affordability factor of AIF=1. It works well as no complaints and the insurers have long time held all the ROA risk certainties under control. Above the Rockhampton Line the ACCC reported the insurers bemoan how uncertain the natural perils risks are. ‘*Natural*

peril models are inherently uncertain. Mother nature is difficult to estimate—it is hard enough coming up with a two week weather forecast let alone a long term cost of damaging weather.... The range of possible values for natural peril models can be large. It is not uncommon to get ranges of estimates from.... experts where the highest estimate is double the lowest estimate....this conveys the degree of uncertainty possible in these models⁵⁹. By taking the full replacement unregulated cyclone and flood natural peril risks off the NQ strata table and out of their risk and pricing model and responsibility will reduce the Insurer's risk exposure, reduce their premium prices and deliver reliable profits at the ACCC proven ROA AIF = 1.0..

126. The BCCM must transform from being a reactive “disputes” regulator to become a “proactive” billion-dollar strata community advocator, protector and promoter of the CTS strata community economy in Queensland.
127. The BCCM is not alone, others have fixed their home insurance problems. *USA Insurance is regulated by the states. This system of regulation stems from the McCarran-Ferguson Act of 1945, which describes state regulation and taxation of the industry as being in “the public interest” and clearly gives it pre-eminence over federal law. Each state has its own set of statutes and rules.*
128. Fixing the NQ and NA home insurance market will deliver mutual benefits of cost reduction for the homeowners and risk reduction for the insurers. It will also reduce the insurance noise in our politicians in trays.
129. Any “regulated” Community Titles Scheme lot owner who is getting strata insurance with an affordability AIF close to 1.0 are fortunate, those with an AIF much larger than 1.0, should ask their insurance provider and the BCCM to explain why?
130. A lot of work needs to be done by our BCCM to catch up and then position itself better to lead the huge Queensland CTS strata economy. Once the NQ strata insurances affordability problem is fixed. NQ should then prosper like the rest of Queensland below the Rockhampton line.

That's all for now.



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⁵⁹ A14.6.p93 – ACCC

Caveats.

This above “community service” paper is a volunteer lot owner body corporate strata awareness paper. It requires more hours of report polishing but we do not have the time nor the presentation skills nor the resources to have others do it for us.

The content presented above is based mostly on analysing the ACCC report and pickings from some 340 odd government reports, inquiry submissions, media reports and the like. All internet available. This paper’s purpose is to stimulate strata community government regulatory insurance repair plans for NQ and NA. We hope some of this repair intervention will deliver home insurance improvement to for our fellow NQ and NA housing and strata communities.

This paper’s facts and details could be strengthened and much more meaningful if our BCCM regulator could recalibrate and or substitute all the numbers used in this report using better accessed government data sources as we believe much of the internet and insurance supplied data presented here is dubious at best. Our body of tax invoice evidence data is cash paid solid.

An additional caveat copied from a 1649 caveat extract from Peter Fitzsimons book Batavia. ISBN: 9781864711349, has the same application today.

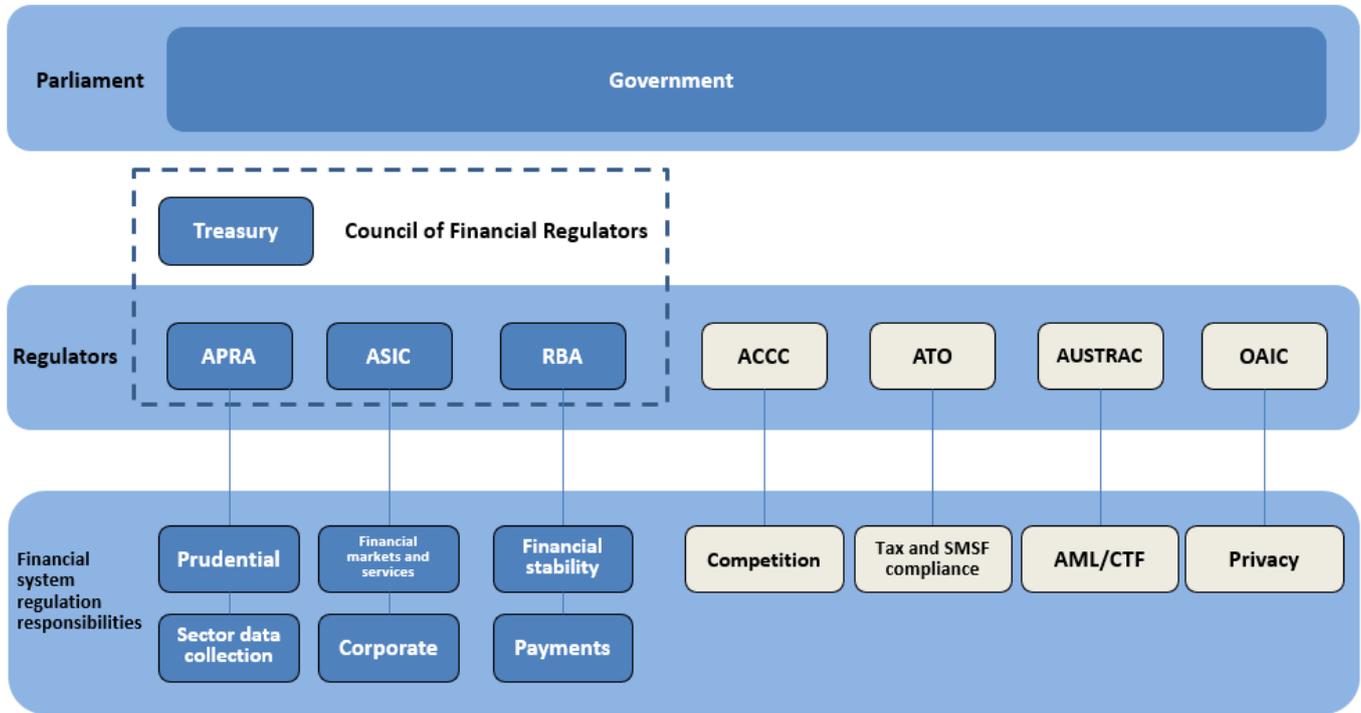
similar struggles have been going on for 350 years. In a closing note to the first edition of the *Ongeluckige Voyagie* in 1647, Dutch publisher Jan Jansz wrote:

The want of a continuous record has prevented my polishing this story in such good order as I had wished. I would, therefore, request anyone who should be in possession of further information or notes to place them in the hands of the printer, so that they may be added to a second edition. For the same reason, I trust that the deficiencies of my work will be excused. With this I bid the reader farewell, recommending him to read all with judgment and discrimination.

Should any lot owner or body corporate wish to share their NQ strata insurance pain and support our growing NQ strata insurance and war stories evidence and monitoring collection. Please email your strata insurance tax invoices, strata claims history and strata policy PDS documents to the above email address. If we detect any BCCM non-compliant insured items in your policy documents, we will report back to you such detections. At all times your name, data and strata building information will remain private and confidential. If asked by the regulators to share our collection of “real evidence” we will ask each contributor for their approval to disclose any strata data of private nature.

Appendix-A: Australia’s Financial Regulatory framework.

Australia’s financial regulatory framework



Appendix-B: Australian Natural Disasters Web site investigation

Table-T13:
Web search results of Australian Natural Disaster reported events Costs and Frequencies last 53 Years

Period 1967-2020	Disaster Events	Non Disaster years	Hailstorms	Bushfires	Floods	Cyclones	Storms	Earthquakes
53 Years	Some years have multiple events							
Event Quantity	74	31	10	6	8	14	4	1
Event Damage total	\$63.5 Billion	\$0 B	\$19.1 B	\$7.2 B	\$12.4 B	\$16.18 B	\$4.2B	\$4.3B
% of Total Damage	100%	0%	30%	11%	20%	25%	7%	7%
\$ Cost per event		\$0.0B	\$1.9B	\$1.2B	\$1.6B	\$1.2B	\$1.1B	\$4.3B
National Disaster event probability per year		58%	19%	11%	15%	26% (TSV=7.5%)	8%	2%

Appendix-C: Australia's Insurance Natural Peril Disasters Billion Dollar Club

Year	Damage \$ million	Event	Location	State
1999	\$ 5,600	Hailstorm	Sydney	NSW
1974	\$ 5,100	Cyclone Tracy	Darwin	NT
1989	\$ 4,300	Earthquake	Newcastle	NSW
1974	\$ 3,160	Flood	Brisbane	Qld
2010	\$ 2,387	Flood	Brisbane	Qld
2019	\$ 2,325	Bushfire	Vic NSW Qld SA	Vic NSW Qld SA
2011	\$ 2,307	Flood	Brisbane	Qld
1985	\$ 2,274	Hailstorm	Brisbane	Qld
2007	\$ 2,190	Flood	QLD	NSW
1983	\$ 1,761	Bushfire	Vic SA	Ash Wednesday
2009	\$ 1,760	Bushfire	Vic	Vic
1990	\$ 1,681	Hailstorm	Sydney	NSW
2020	\$ 1,660	Hailstorm	NSW.Qld.Vic	Three
2010	\$ 1,630	Storms	Melbourne	Vic
2010	\$ 1,625	Hailstorm	Melbourne	Vic
2011	\$ 1,610	Cyclone Yasi	Cardwell	Qld
1967	\$ 1,595	Hailstorm	SEQ	Qld
2017	\$ 1,565	Cyclone Debbie	Queensland	Qld
2014	\$ 1,530	Hailstorm	Brisbane	Qld
1973	\$ 1,492	Cyclone Madge	North Australia	NT WA Qld
2018	\$ 1,357	Hailstorm	Sydney	NSW
2010	\$ 1,350	Storms	Perth	WA
1967	\$ 1,281	Bushfire	Vic NSW Qld SA	Black Tuesday
2019	\$ 1,269	Flood	Townsville	Qld
2014	\$ 1,188	Cyclone Oswald	Gulf County	NT Qld NSW
2010	\$ 1,053	Storms	Perth	WA
2010	\$ 1,044	Storms	Melbourne	Vic
1970	\$ 1,001	Cyclone Ada	Whitsundays	Qld

NQ does not crack a disaster event mention until line item 15.

Cyclone Debbie 2017 was revalued up in 2019 to \$1.78 billion in a ICA ACCC submission.

Error? Cyclone Marcia 2015 was ICA upgraded from being a \$544 million damage bill in 2017 to \$1.48 billion in the ICA submission to the ACCC in 2019. We did not put it into the billion-dollar club above as could not find supportive evidence of this disaster that supposedly damaged NQ and did not cause any strata damage at that time as reported by the ACCC.

The data in table above is indicative and dubious as most comes from the Insurance Industry and media, we have no government data base of disasters and economic loss, they mostly use the ICA disasters and \$ damages publications.

Appendix-D: Department of Home Affairs Disasters listing

Department of Home Affairs - Disasters Assist - Disaster Events Data 2006-2021														
			NSW	Vic	Qld	SA	WA	NT	ACT	National	TAS	os		
		Bushfire	101	23	16	8	11	2	2	1	8		172	31%
		Cyclone events			17		12	7					36	6%
		Flood events	48	46	46	9	46	9		1	10		215	39%
		Hailstorms	3					1					4	1%
		Influenza, earthquake, tsunami, terrorist,								1		5	6	1%
		Weather, rainfall, Tropical low, Tornado	9	1	10	0	1	8					29	5%
		Storm	32	24	14	5	11		7		1		94	17%
		Drought??												
			193	94	103	22	81	27	9	3	19	5	556	100%
			35%	17%	19%	4%	15%	5%	2%	1%	3%	1%	100%	

- NSW leads the Natural Peril Disaster frequencies, near double Qld.
- Floods and Bushfires dominate the natural disasters event type.
- Hailstorms cannot be right?

The ICA presented a NQ **Bowen**⁶⁰ township home case study to the ACCC, which indicated the premium risk modelling factors for cyclone as one every five years as returning to this location. And gave the house an extreme exposure to tropical cyclone classification and a \$3000 annualised damage prediction. The resulting AIF = $(\$3080/\$350,000) \times 1000 = 8.80$ (AIF = 2.0^{61} for ROA Houses)

What is intriguing is the 1 in five years cyclone frequency predicted hits modelled for Bowen, is that Darwin city provides factual evidence it has gone 47 years without another direct cyclone hit. Who decided the Bowen cyclone hit frequency and is it possible the damage cost and probability applied here may be flawed? How can the homeowner consumer at this address correct, let alone discuss if this cyclone frequency prediction is fair? Can the ACCC help them?

⁶⁰ A34.10 – ICA 2018 submission Australian Competition and Consumer Commission Northern Australia Insurance Inquiry

⁶¹ A14.6.p65 – ACCC Figure 3.11: Average premium per \$1,000 sum insured for home insurance products, 2019.

Appendix-E: Home Affordability Insurance Factor Applications.

1. Home Affordability Insurance Factor AIF = (\$ consumer premium price paid / \$ insurer liability sum insured price) x 1000.
2. Example: an strata complex pays \$24,000 insurance premium for a \$5.0 million sum insured building of ten lots. AIF = (24,000/5,000,000) x 1000 = 4.8
3. The ACCC AIFs are lower than the ICA AIFs. Nearly all the ICA AIF's use a normalised average price for an strata or house BIV of \$350,000. Our study found the average strata AIF for Townsville is AIF = 5.2, five times the national ROA AIF=1 average.

Table-A: NQ and ROA Strata and House Affordability Comparisons

Table-A:	NQ or NA Strata	ROA Strata	NQ or NA House	ROA House
2010	ICA AIF = 2.36 ⁶² ACCC AIF = 1.50 ⁶³ SCA AIF = 2.10 ⁶⁴	ICA ACCC AIF = 0.99 ⁶⁵	ICA AIF = 5.29 ⁶⁶	ICA ACCC Not reported
2011	ICA AIF = 4.54 ACCC AIF = 2.50 SCA AIF = 4.92	ICA ACCC AIF = 1.00	ICA AIF = 6.01 ACCC AIF	
2015	ICA AIF = 4.17 ⁶⁷ ACCC AIF = 2.50 ⁶⁸	ICA AIF = 1.81 ⁶⁹ ACCC AIF = 1.00	ICA AIF = 4.69.	ICA AIF=3.05.
2018	ICA ACCC AIF = 2.50	ICA ACCC AIF = 0.98	ICA AIF = 3.86 ⁷⁰ ICA AIF = 6.27 ⁷¹ Bowen ⁷² AIF = 8.8	ICA AIF = 1.64 ⁷³
2019	ICA ACCC AIF = 2.60 ⁷⁴	ICA ACCC AIF = 1.05 ⁷⁵ ACCC AIF = 0.99 ⁷⁶	ACCC AIF = 6.10 ⁷⁷ ACCC AIF = 5.0 ⁷⁸	ACCC AIF=2.0 ⁷⁹
2020	TSV.LOG AIF = 5.2⁸⁰			

- ROA = Rest of Australia.
- NQ = North Qld
- NA = North Australia above the Rockhampton line.

⁶² A34.6.p5 – ICA submission to House of RSC on Social Policy and Legal Affairs Inquiry into Residential Strata Insurance

⁶³ A34.6.p83 – ACCC Figure 3.33: Average premium per \$1,000 sum insured for Strata insurance, 2007–08 to 2018–19

⁶⁴ A34.20.04 – Strata Communities Australia SCA 2012 submission to House of Rep Inquiry Residential Strata Insurance undated

⁶⁵ A34.6.p83 – ACCC Figure 3.33: Average premium per \$1,000 sum insured for Strata insurance, 2007–08 to 2018–19

⁶⁶ A34.6.p5 – ICA submission to House of RSC on Social Policy and Legal Affairs Inquiry into Residential Strata Insurance

⁶⁷ A34.11.p2 – ICA 2015 submission to Federal Treasury - Northern Australia Insurance Premiums Taskforce

⁶⁸ A34.6.p83 – ACCC Figure 3.33: Average premium per \$1,000 sum insured for Strata insurance, 2007–08 to 2018–19

⁶⁹ A34.11.p11 – ICA 2015 submission to Federal Treasury - Northern Australia Insurance Premiums Taskforce s

⁷⁰ A34.10.p4 – ICA 2018 response paper to ACCC issues, ACCC NAII Figure-20 North Australia

⁷¹ A34.10.p25 – ICA 2018 response paper to ACCC issues, ACCC NAII Figure-20 North Australia

⁷² A34.10 – ICA 2018 submission Australian Competition and Consumer Commission Northern Australia Insurance Inquiry

⁷³ A34.10.p4 – ICA 2018 response paper to ACCC issues, ACCC NAII Figure-20 Rest of Australia

⁷⁴ A14.6.p82 – ACCC Figure 3.32: Average premium per \$1,000 sum insured for Strata insurance, 2019

⁷⁵ A14.6.p82 – ACCC Figure 3.32: Average premium per \$1,000 sum insured for Strata insurance, 2019.

⁷⁶ A34.6.p83 – ACCC Figure 3.33: Average premium per \$1,000 sum insured for Strata insurance, 2007 – 2019.

⁷⁷ A14.6.p67 – ACCC Figure 3.14: Townsville premium per \$1,000 sum insured for home insurance products, 2019.

⁷⁸ A14.6.p65 – ACCC Figure 3.11: Average premium per \$1,000 sum insured for home insurance products, 2019

⁷⁹ A14.6.p65 – ACCC Figure 3.11: Average premium per \$1,000 sum insured for home insurance products, 2019.

⁸⁰ TSV Lot owners group study of tax invoices yields local AIF