



Australian Competition and Consumer Commission (ACCC):
Northern Australia Insurance Inquiry

Port Douglas Apartments Committee Submission
23 August 2019

Port Douglas Apartments (PDA) Committee
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Thank you for the opportunity to respond to the Australian Competition and Consumer Commission's (ACCC) Northern Australian Insurance Inquiry. The ACCC has been set a complicated challenge, particularly in relation to developing recommendations around the availability and affordability of insurance in the far north.

The Port Douglas Apartments (PDA) Committee acknowledges the ACCC for delivering two extensively researched reports. The reports are broad in scope and highlight the complexity of the problems that currently exist in the northern regions. In this submission, the PDA Committee has focussed on Report 2 Focus Area 1 - *Measures to Improve Affordability and Availability*, specifically in relation to strata insurance.

PDA Committee brings an insurance customer perspective to the table, and our submission highlights the need for urgent action. The Committee is very concerned about the rising cost of residential strata insurance in northern Queensland which has seen PDA insurance premiums rise fourfold over the past decade.

Port Douglas Apartments Case Study

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).

Background:

The affordability of strata insurance in FNQ is an ongoing concern for many strata unit owners and investors. There have been numerous inquiries and reviews over the past decade however, there has been little relief in the rising cost of strata insurance. In 2012, the Parliamentary Committee for Social Policy and Legal Affairs Committee tabled a report into residential strata title insurance, entitled *In the Wake of Disasters: The Affordability of Residential Strata Insurance*. The report findings noted contradictory evidence from insurers on the pricing of risk and the Committee expressed serious concerns about the capacity of the industry to accurately and adequately price risk. Moreover, the Committee found that strata insurance costs were increasing at unsustainable levels and were having severe financial, psychological and social impacts on many people.

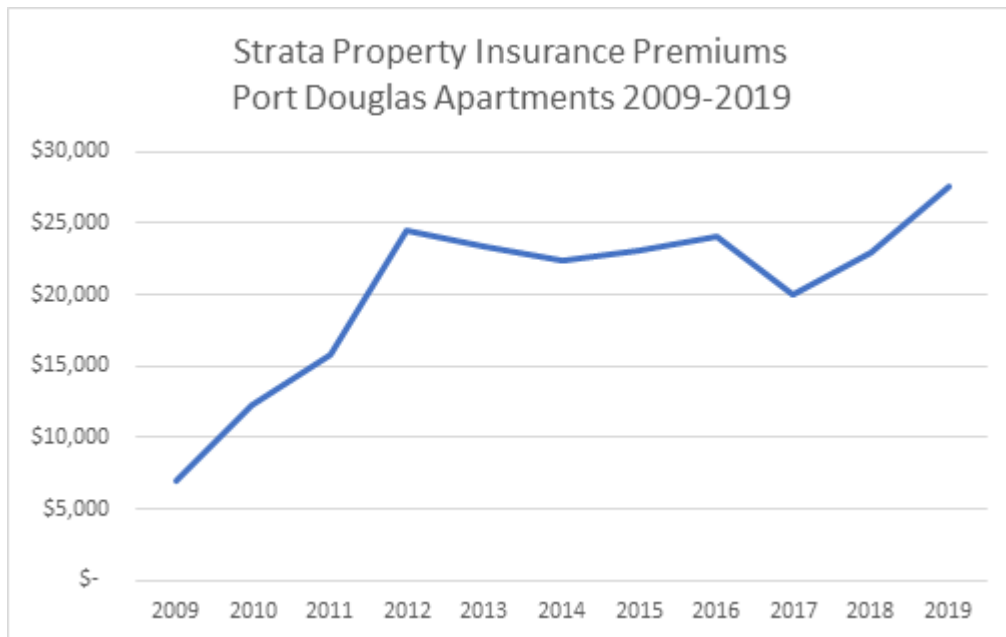
On 25 May 2017, the Australian Government directed the Australian Competition and Consumer Commission (ACCC) to conduct a wide-ranging inquiry into the supply of residential building and strata insurance in northern Australia. On December 2018, the ACCC released its interim report, the report made recommendations on insurance availability and affordability. The Federal Government is currently considering the recommendations from this report. The second update report was released in July 2019 and a final report will be published on 30 November 2020.

Both the 2012 Review and the ACCC interim report, recommended the abolition of stamp duty on strata insurance products as it has been widely accepted that stamp duties on insurance contracts are an inefficient form of taxation. Immediate action to implement this recommendation would assist in lowering strata insurance premiums over the next 18 months until completion of the ACCC investigation.

Issues:

The magnitude of increases of PDA strata insurance premiums can be clearly seen in the following chart. Steep increases occurred from 2009 to 2012 and, 2017 and 2018 where premiums increased

by 15% and 20% respectively. An increase in insurance costs of 35% over the past two years is unsustainable and if this trajectory continues, will represent an extreme financial burden for the owners of PDA apartments.



The ACCC interim report found that insurers were not currently pooling addresses to equalise prices across a region. Insurers were instead, using individual addresses leading to exorbitantly high premiums at a local level, as shown in PDA premium history above. Submissions to the ACCC inquiry also noted that insurance premiums did not reflect the higher building standards mandated in northern Queensland.

Next Steps:

Small, private investors make a significant contribution to Northern Queensland's tourist accommodation stock, and since there appears to be no relief to the rising costs of strata insurance in the foreseeable future, the PDA Committee urges immediate action to ensure strata insurance is affordable now, and sustainable in the long term.

PDA Committee recommends the ACCC direct the Queensland State Government to:

1. Abolish stamp duty on strata insurance products; and
2. Reinststate the State Government Insurance Office (SGIO) to offer general insurance and strata property insurance products comparable with policy costs in other states

The PDA Committee looks forward to your response.