

ACCC Northern Australia Insurance Inquiry
GPO Box 520
Melbourne Vic 3001
Via email: insurance@acc.gov.au

Dear Sir/Madam

ACCC Northern Australia Insurance Inquiry Second Update Report

Further to the invitation for submissions in relation to Focus Area 1 - Measures to improve affordability and availability, we are pleased to provide Strata Community Associations submission.

Introduction

Strata Community Association (SCA) is the peak industry body for Body Corporate and Community Title Management (also referred to as Strata Management, Strata Title or Owners Corporation Management) in Australia and New Zealand.

Our 5,000 individual and corporate members include body corporate managers, support staff, owners' representatives and suppliers of products and services to the industry. SCA proudly fulfils the dual roles of a professional institute and consumer advocate.

The Australian government (Federal, State, or a combination of both) should decide if they wish to subsidise the costs associated with cyclones in Northern Australia to promote greater investment, development, and tourism in these jurisdictions.

1. Affordability and Availability

Escalating premiums, excessively high excesses and the non-availability of insurance for some bodies corporates requires urgent action on behalf of government. Currently, a number of buildings have been identified where insurance cannot be sourced due to the insurers not offering cover in that region. There is a provision in the Queensland legislation where the Body Corporate Commissioner can release a scheme from the legislative requirement (this is not an option though in other northern Australian jurisdictions) however that results in assets not being adequately protected and exposes each owner to unlimited liability.

Affordability

- Removal of taxes – government taxes (stamp duty and GST) are increasing the cost of insurance by approximately 20%, the removal of this would reduce the cost of premiums and provide significant benefit to bodies corporates

- In consultation with key stakeholders, consideration should be given to use the Australian Reinsurance Pool Corporation (ARPC)¹ to wholly or substantially fund 'wind risk' in Northern Australia, just as the Earthquake Commission² fund a large portion of the New Zealand earthquake risk.
- Similarly, the Government should consult with key stakeholders and consider a reinsurance fund for northern Australian wind risk to be removed from insurance and potentially improve affordability.

Availability

There are currently a number of buildings where insurance cover has not been secured due to either insurers pulling out of the market and/or building construction that does not meet underwriting guidelines from the available insurers.

Many of the building that do not meet current Building Code of Australia (BCA) and Australian Standards have insufficient sinking funds and/or the financial capacity from owners to upgrade their assets to meet code requirements for cyclone areas.

Government funding of low interest loans to bring these buildings up to current standard should be a consideration. All key stakeholders should be engaged to ensure that there is a full understanding of the relevant factors and corrective measures. The desired outcome would lead to an increase in insurance availability and insurers entering the market providing more capacity and competition.

Buildings which have been deemed a major risk or uninsurable by an insurer should be eligible and prioritised for assistance. Government can access previous claims history data which is available by all participating insurers. The Insurance Council of Australia could assist government to understand the costs of the measures.

Conclusion

In perpetuity, cyclones will always affect Northern Australia. The Federal Government has the opportunity to take the lead with all stakeholders to ensure that the residents of Northern Australia have the same opportunity to access insurance as those living in other areas. This will be achieved in part by the suggested affordability and availability measures above.

For further discussion Strata Community Association is available by contacting its CEO Alisha Fisher on (02) 9492 8250 or via email admin@strata.community.

Yours faithfully



Andrew Chambers
President

¹ Australian Reinsurance Pool Corporation (ARPC), <https://arpc.gov.au/>

² Earthquake Commission, <https://www.eqc.govt.nz/what-we-do>



5 September 2019

Australian Competition and Consumer Commission
23 Marcus Clarke Street
Canberra, ACT, 2601

RE: ACCC Northern Australia Insurance Inquiry Second Update Report

As the peak industry body for Body Corporate and Community Title Management in Australia and New Zealand, the Strata Community Association (SCA) provided a submission in April in response to the Northern Australia Insurance Inquiry – First Interim Report.

The submission highlighted the following areas:

- Strata insurance is a specialised product that is specifically tailored to the needs of Bodies Corporate;
- The efficiency and effectiveness of strata managers helps strata insurers keep the costs of insurance lower than it would be without their assistance;
- The income received by strata managers from insurers is compensation for the work performed, including obtaining quotes, liaising with insurers on behalf of the Bodies Corporate and assisting Bodies Corporate in the claims process;
- If strata managers did not receive this income, then the cost of those services would be borne by the Bodies Corporate in the form of additional service fees under the strata management agreement;
- A regulatory regime founded on a principle of full transparency and disclosure, rather than prohibition, would be a better and fairer approach as it would enable consumers to make an informed decision on the value of the service of the strata manager. Each Body Corporate could then elect for the strata manager to receive a commission from the insurer or pay higher body corporate management fees.
- This would underpin current best practice while minimising disruption to the market and provide a mechanism for dealing with conduct that is not in line with ethical business practices and consumer expectations.

In your recent ACCC Northern Australia Insurance Inquiry Second Update Report, **Recommendation 24** notes that Strata Managers to be remunerated by body corporate only.

When strata plans transact on their insurance product there is inevitably involvement by the strata manager who is able to represent them in a professional manner. The role is strengthened with their understanding of the relevant strata legislation, training provided under the arrangement with the insurer, to interpret and assist to negotiate through the minefield of variables when renewing insurance, and also as part of a claims process.



Without the three-way relationship that the arrangement initiates there will likely be gaps for the end user, being the strata plan.

Across Australia, Strata Management companies are already offering choice on remuneration arrangements, and some are working on a fee for service basis. Hence, in relation to arranging strata insurance, Body Corporates have been able to choose for their Manager to be remunerated by the Body Corporate as a 'fee for service' or through commissions.

The remuneration received is disclosed and known by customers. It is not hidden and nor should it be. It is this remuneration that affords strata plans with an enhanced service that ultimately provides more options on policy renewals. The remuneration connects the strata plans maintenance requirements, compliance and administrative issues, as well as its history to ultimately ensure a strata plan is offered a policy that affords the required cover or the best outcome on claims.

The Body Corporate can make the choice of which option they would like to select. They can change their current status by renegotiation of their existing arrangements or in the case their current manger refuses, they can make new arrangements through an alternative Manager.

As mentioned in our earlier response, SCA is supportive of the general policy thrust towards improving trust in financial services.

Where this matter has been considered in depth at state level, the principles of disclosure and transparency have been settled on as the best means of encouraging ethical conduct and protecting consumers.

We are available for a briefing on admin@strata.community or (02) 9492 8250.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Alisha Fisher'.

Alisha Fisher
Chief Executive Officer
Strata Community Association Ltd