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Report

SPEECH

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Speaker Neumann, Shayne, MP

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Mr NEUMANN (Blair) (10:52): I am very pleased to speak on the report *In the wake of disasters : volume two: the affordability of residential strata title insurance*, which looks at the affordability of residential strata title insurance in North Queensland in the wake of the disasters which have been experienced by the people of the northern state. In the last decade they have experienced Cyclone Larry and Cyclone Yasi, in 2011. There have not just been cyclones; there have been floods, fires and storms which have ravaged many parts of Australia, but particularly North Queensland. I have been to North Queensland many times in my life as a Queenslander; my mother lived up there for quite some time in Cairns, and I know it very well.

Strata title is a strange legal ownership arrangement. It involves individual ownership in a collective arrangement. There is usually a general insurance cover which covers common property, and the individual owners own apartments or units in complexes. There is a common area, wiring, lifts and car parks. Usually there is a body corporate established by law, and an annual insurance premium is paid to cover the buildings and the common area. In Queensland this is governed by two pieces of legislation: the Body Corporate and Community Management Act 1997 and its associated regulations and the Building Units and Group Titles Act 1980. In the last 20 years we have seen a very large increase in the number of strata title units, particularly in Queensland—not just on the Gold Coast and the Sunshine Coast but particularly in North Queensland. According to Australian Bureau of Statistics data analysed by Macroplan in the 1990s, there was one apartment approved for every three houses. By April 2011, that ratio had shrunk to only 1.6 houses approved for every apartment. The people of North Queensland—people in Mackay, Townsville, Cairns, Port Douglas and other areas—have seen a very large increase in strata title insurance premiums. The Unit Owners Association of Queensland reports that these increases have been the most excessive over the last two years. They seem to coincide with Cyclone Yasi, and it has accelerated a process which has been going on for some years. Members of that association report increases ranging from 300 and 800 per cent. That is consistent with the plethora of evidence that we received in the inquiry.

We had hearings in Port Douglas, in Cairns, in Townsville, in Mackay via videoconference, and also in Canberra. In a very short time frame we had 431 submissions and 17 supplementary submissions. The number of people involved was extraordinary. In fact, when we were in Cairns the room was simply not big enough. People had to stand outside. That is how much interest there is in this issue in North Queensland.

We looked at a whole host of things during the inquiry but I want to come to the conclusion—as I did during the inquiry—that it is not up to the government to intervene in the market to establish a new SGIO. It is up to the government to make sure the market works and works more equitably. I think that is the way to go in relation to this matter.

It is obvious from the evidence that was given that it was common for increases of 500 per cent or more on an annual basis to be received by corporates. It is an extraordinary increase. Strata title owners in North Queensland are in a unique predicament, with very few players in the insurance market. There is a great concentration of strata title holders in North Queensland and, governed by the legislation I mentioned before, there is compulsory property insurance. They have been coping excessive premium increases year after year, and there are very few insurance companies in the market. Some of them have pulled out and others are just not taking any new insurance.

Since the 2010-11 floods and Cyclone Yasi, the Queensland government has reported an increase in strata title premiums between 130 and 360 per cent on the previous year. It is amazing when you consider that inflation is so low in this country. The reinsurance costs are very small indeed, notwithstanding the propaganda peddled by the insurance industry in relation to these matters. We had evidence all over the place about the excessive amounts of insurance costs inflicted on body corporates—many of whom are not well educated and do not possess great accountancy skills or legal facilities.

This federal Labor government commissioned the Natural Disaster Insurance Review to look at what is happening around the length and breadth of the country, particularly in parts of Western Australia, Victoria and Queensland as well as Tasmania and New South Wales—where floods have been copped not just in one year but year after year. The government recognised that there was an issue in relation to affordability and availability of strata title. The NDIR made a series of recommendations in relation to reinsurance which the government should consider and has acted on—a standard definition of flood, a key fact statement and so on. And there is legislation before the House, the Insurance Contracts Amendment Bill.

In volume one of the committee's inquiry, I really asked some serious questions of the insurance industry in relation to their codes of practice, which we found to be thoroughly and utterly ineffective. There was a get-out-of-jail-free card in code of practice 4.3, which allowed them to completely abandon any obligations they had to consider. Consumers were not aware of their rights, and the insurance companies almost seemed to delight in keeping their policyholders ignorant. When dealing with them, their attitude towards their policyholders was often contemptuous and their response to claims was categorised by inertia and inactivity, hoping to wear people down. So we made a series of recommendations—13 in all—which the government has to respond to, and I urge the government to respond positively towards those recommendations.

The then Assistant Treasurer and Minister for Financial Services and Superannuation, the Hon. Bill Shorten, asked us to look at this other aspect—what is happening in North Queensland. We did that in November 2011. What we found was terrible devastation, emotional and financial impact on the people of North Queensland, investors being driven out of the market and lives destroyed. We heard a series of people giving evidence about the abject failure of the insurance industry in North Queensland; about the towns and cities in North Queensland being affected in terms of their economic development and the impact on people's lives—particularly, pensioners, self-funded retirees and people on low incomes.

I found the evidence of the insurance companies to be unconvincing and inconsistent. I personally found the conduct of the insurance companies to be unnecessary, outrageous and, at times, reprehensible. It was extraordinary. In Cairns one of the insurance industry representatives gave a submission. When I questioned him, his evidence was the opposite of the reason for the increase. When I pulled that particular representative up during the forum, you could see the look on his face. Hundreds of people in the room could see that I had caught him out, that he had given evidence completely inconsistent with what he had said in writing. But we found this all the time. It is a disgrace, and I have continued to push the representatives privately, personally as well as in the committee, to take action in relation to this matter.

We have made a series of recommendations. It is not easy; it is a very complex area we have to act on. We recommended a 12-month moratorium on stamp duty charged on strata title for properties north of the Tropic of Capricorn. We recommended that APRA, the Australian Prudential Regulation Authority, conduct a review of risk assessment methodologies. People gave extraordinary evidence in relation to this that somehow earthquakes in New Zealand and tsunamis in Japan had affected them. When you looked at it, you could trace the insurance premiums preceding all this. It was extraordinary that they had the temerity to give evidence like that. Who do they pay? Their representatives, their employees who draft these submissions, should be put out the back and be scolded by their CEOs—they really should.

In the review we said that APRA should focus on the calculations of premiums in North Queensland. We made some recommendations in relation to the ACCC conducting a review into the cost drivers and relative profitability and competition. I do not think the markets are successful. I think the markets abjectly failed in North Queensland, and a review should be conducted in relation to that.

I also have talked—and I put this to the insurance industry many times in the inquiry—about their social and community obligations, not just of an economy but of a community, and they have obligations to offer insurance across the country. I represent a rural and regional seat in South-East Queensland and I am telling you: the way they treat my constituents is a disgrace at times and was during the aftermath of the floods.

We have looked at and made recommendations for the government to look at the expansion of the Australian Reinsurance Pool Corporation—and, fortunately, we have not had to make use of terrorist risk reinsurance at any stage in the last decade. It has never been used, but we should have a look at that and see if that will assist.

We made recommendations in relation to the use of intermediaries, because many of these managers of body corporates and some of the insurance brokers are acting with disgraceful abandon and are in the pay of the

insurance industry. There are conflicts of interest. It reminds me of the old biblical saying: 'You can't serve two masters. You will be devoted to one and despise the other. You will hate one and love the other.' They simply have a terrible conflict of interest in relation to the way they conduct themselves. We have recommended that there be greater education and information given to body corporates. Some of these body corporates cannot handle themselves. They simply cannot get people to put their hand up to serve on body corporates and, when they do, the people are, at times, ill-equipped to manage those types of things. They may not have a business, union or community background that enables them to conduct a business—because it is a business—and simply do not know what to do.

We have recommended that the federal Attorney-General conduct a review of state and territory regulatory requirements. I know that our states and territories, no matter which side of politics they are on, might not particularly like that, but we have recommended they do that and expand the role of the Financial Ombudsman Service.

The Financial Ombudsman Service technically is a good service, but we found during the floods that not enough people knew about it. They are based in Victoria. They should be on the ground more readily in disaster areas. And we have recommended that they have a few more teeth.

There are hold-ups in cases and claims. We have still got, in my electorate, unresolved claims. As recently as this week I was into the Insurance Council of Australia representatives about the fact that the insurance industry still have not resolved cases of businesses and individuals, householders, in South-East Queensland in my seat of Blair. Hundreds of them are still outstanding. So we recommend that the Attorney-General look at that.

We also recommend that this should be in the COAG process, because it is not just North Queensland that is going to cop this. There is evidence of this in the Northern Territory and in Western Australia as well. Anywhere where the market has failed and there is not enough competition, what happens? Affordability of insurance goes down the drain.

We are talking about an industry that makes tens of billions of dollars a year. During the year of the cyclones and disasters in this country, the insurance industry, on their own figures, made \$5.6 billion in profit. Yet now they are saying to people in towns and postcodes around Queensland, 'We're not going to insure you.' They have said so to these poor beggars up in North Queensland—and that is what they feel like; they feel like they are beggars going to the insurance industry and saying to them, 'Please reinsure us.' But guess what? It is interesting, because when they picked up the phone and challenged them, we saw decreases in premiums in the hundreds of percent. Don't tell me that that is because of some earthquake in Christchurch or tsunami in Japan. It is because they are just abusing the market. The market has failed.

So we have made recommendations to government. My hope and my expectation is that the government acts on those recommendations for the people of North Queensland, because if it can happen to them, if it can happen to the people on the Gold Coast and Sunshine Coast and in Brisbane and Ipswich and South-East Queensland, it can happen all across the country. I hope the market improves and I hope the government listens to our recommendations.

Debate adjourned.