



COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

Main Committee

GRIEVANCE DEBATE

Leichhardt Electorate: Insurance Industry

SPEECH

Monday, 19 September 2011

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

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Page 10716
Questioner
Speaker Entsch, Warren, MP

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Mr ENTSCHE (Leichhardt—Chief Opposition Whip) (21:37): I rise this evening to express a very serious grievance I have relating to the activities of the insurance industry and what they are doing in my electorate. I have some serious concerns that there are companies there that are engaged in a serious gouging effort in ramping up prices after taking over market dominance in the area. I will give you an example. A few years ago we had a new player come into the strata title market, the unit market, in Far North Queensland, a company by the name of Zurich. They were very active in undercutting other insurance quotes and over a relatively short period of time effectively achieved a significant part of the market. What has happened is that as soon as this market dominance was achieved they started ramping up their premiums. They used as an excuse for the ramping up the fact that they had a major exposure in the area and they claimed that exposure put them at greater risk. We have seen insurance premiums on body corporate buildings in the Far North Queensland region increasing as much as 800 per cent. In the inner-city area of Cairns, we have quite a large number of very modest one- and two-bedroom apartments. Many of them are owned by owner occupiers. A lot of people on fixed incomes— independent retirees and a lot of single individuals on fixed incomes—of \$35,000 or \$40,000 a year have been living quite comfortably. Suddenly the body corporate insurance has started to ratchet up. We now have a situation where body corporate insurance has got to a level where the body corporate fees makes those units almost impossible to sell. Unfortunately, because these people are on a fixed income, they cannot afford to pay for these additional body corporate fees and so we have a situation where they cannot sell their unit and they cannot afford to pay the fees, so they are actually borrowing money to pay for their body corporate fees. This is totally and absolutely unsustainable.

As Zurich has increased its interests, if you like, in the area we have seen many of the other insurers disappear. Suncorp-Metway Insurance has withdrawn from the residential body corporate insurance market. Ace Insurance Co. has also withdrawn, and it has withdrawn nationally, from the body corporate insurance market. As I say, Zurich Australia has increased its body corporate rates, initially by 25 per cent in September 2009 and another 35 per cent in March 2010. It then withdrew all policy discounts and then increased its rates again by 35 per cent in September 2010. It will not underwrite any business with sum insured or asset values over \$20 million. They certainly have taken over a very significant part of the market. The Allianz Australia insurance company no longer underwrites risk in Far North Queensland for a value over \$6 million. QBE Insurance is reluctant to provide even quotations in the area. AMP insurance will not underwrite any risks over \$5 billion, and CGU Insurance Pty Ltd, strata title underwriters, have applied what they call named cyclone excesses. If a cyclone is named, the excess goes through the roof—it makes it not practical to even insure. Of course RACQ Insurance will only provide quotations for non-holiday complexes to a maximum value of \$5 million.

This has had a profound impact in our region. Acme agents have told me only today that Lumley Insurance has now made a decision that it will be no longer providing insurance in postcodes north of 4373, which means that from Rockhampton north you will not be able to get any insurance from this company. I have examples where insurance premiums in 2008 were \$11,000, in 2009 they were \$12,000, in 2010 they were \$23,000 and the recent one that has just arrived from Zurich is \$92,500. This is totally and absolutely unsustainable. I have contacted the Insurance Council of Australia to raise concerns. They claim it is all because it is a cyclone area. When units started to be built in Far North Queensland it was a cyclone area. When insurance companies started insuring all those years ago it was a cyclone area. There has not been a major cyclone that has actually hit these major areas of Cairns and Port Douglas and places like that. There has not been any devastation there. To use that as a justification is an absolute nonsense. I will show you the stupidity of the whole situation. I have a timber house in the region insured for \$476,000, and the insurance premium on that is \$1,778—that is the current one. There is a duplex valued at \$347,000, and the insurance premium on that is \$1,647. For a block of strata title one-bedroom units, average size 47 square metres, currently selling for \$110,000, the average price is \$1,400, for an overall cost of \$35,900. These are buildings that have been built to cyclone-proof specifications.

We have the added problem up there that we have to pay—and have had to pay for many years—the cost of building to cyclone-proof specifications. These buildings are much, much stronger than anything you are likely

to see in the southern states, but they are using the cyclone area to ramp up these prices. They are using exposure because of market dominance as an excuse to increase prices to levels where they are totally unaffordable. People up there are saying, 'If we've got to pay \$95½ thousand to insure we should be looking at self-insuring.' Unfortunately, they are over a barrel because they cannot take third-party insurance. The insurance companies are saying, 'We won't give you third-party insurance unless you take our premiums.'

There needs to be some sort of common sense brought to this situation. Mum and dad investors from all over Australia have invested in very modest strata title units in our region and they have no hope of selling them. The first six to eight months of their rental goes to covering the insurance premiums alone. Again, it creates an impossible situation for an area that is already struggling. I believe this is something that needs to be referred to the ACCC. We need to investigate these companies that have market dominance. We have to question those companies that have decided to exit this market and go for high-yield investments in superannuation without spreading some of the risk. I am calling on these insurance companies to consider the implications of what they are doing. I will be referring this to the ACCC in an effort to get some sort of understanding.

I have spoken to the Insurance Council of Australia about this, but the representatives I spoke to offered no solution at all and basically said, 'You're in a cyclone area.' I said: 'Wait a minute. Since strata title units have existed in Far North Queensland you have had no problem insuring them in the past. There have been no major events where there has been significant damage to strata title units. These buildings pose no greater risk than anything else up there.' It is an absolutely shocking situation. (*Time expired*)