



## **Indian Ocean Territories Insurance Project Final Report**

Prepared for:

Commonwealth of Australia, as represented by  
The Department of Regional Australia, Local Government, Arts and Sport

June, 2012

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## Section 1 – Introduction

Thank you for the opportunity to conduct research into the availability of Insurance within the Indian Ocean Territories.

In February 2012, Arthur J. Gallagher was contracted by the Department of Regional Australia, Local Government, Arts and Sport to conduct research into, and analysis of:

- gaps in the provision of insurance for residents, businesses and community groups operating in the Indian Ocean Territories,
- the reasons for these gaps,
- the risks to individuals, communities and the Australian Government associated with the gaps,
- identification of any legislative issues that the Department needs to be aware of, and
- ways of addressing the identified gaps.

Arthur J. Gallagher undertook a series of activities in the research and analysis of the issues and engaged with businesses, community groups, individuals, the insurance market, Local Government and the Australian Government. The project commenced in early March 2012 and concluded at the end of June 2012.

## Section 2 – Executive Summary

We have gained significant feedback from residents, communities and businesses within the Islands and also from the Insurance Market.

There is no doubt there is an insurance availability issue within the Territories as few, if any, Insurers actively seek to underwrite business there. Numerous factors contribute to this position and there are no easy potential solutions for the Island Communities as a whole. We have identified a number of strategies which can be adopted immediately and others which will require further additional input.

Please note the following key points relating to this Report:

- Wide ranging consultation occurred on both Islands
- A poor response rate (<3%) arose from the survey distributed on Christmas Island; consequently consultations were largely face-to-face
- Key classes where insurance availability is limited are private property owners and occupiers on West Island, flats on Christmas Island and some commercial operators throughout the IOT
- Westpac Bank fulfils a valuable role through the provision of Insurance to many domestic property owners on Christmas Island however has advised it is unable to provide commercial insurance
- There is a lack of understanding of insurance or general awareness of how to go about obtaining insurance amongst some residents/businesses
- No Insurers have offices or direct representation in the Territories
- Insurers have been withdrawing from providing cover in the Indian Ocean Territories over the past few years and this is continuing (the situation is getting worse)
- Not all Insurers responded to our request to identify their position on underwriting business within the IOT – and at least one declined to state its position in relation to this
- In certain segments, insurance market failure<sup>1</sup> has occurred, or is on the verge of occurring
- Some Insurers have withdrawn from and/or been extremely selective in providing cover for other mainland and Island locations where they consider a catastrophe exposure exists
- There are segments of people in the community who have no desire to purchase insurance
- Some properties would not be insurable (even if on the mainland) due to risk attributes

<sup>1</sup> For the purpose of clarity, insurance market failure within this report means: There is either:

- existence of market power by a small group of underwriting participants;
- an absence of adequate competition within the insurance market; or
- limited ability of intending purchasers of insurance to secure insurance protection to meet their needs.

## Section 3 – Recommendations

### General recommendations - Government

The availability of Insurance within the Islands is deteriorating on a monthly basis and potential solutions are not straightforward. We have considered a range of potential solutions below:

#### **1. Generate broader insurance market interest through identification of relevant information**

Private Sector Insurers seek to operate sustainable and profitable businesses and rely heavily on factual data and statistical information as a foundation for the underwriting of products. In order to gain the broad interest and support of Insurers, we believe it would be necessary to provide research information such as analysis and modelling of natural peril exposure, crime statistics, market size, past loss history or experience, fire fighting resources and capability, availability and quality of builders and repairers, availability of parts and building materials and cost of freight etc.

#### **2. Consider Government participation for certain risk types for the IOT**

We understand the Australian Government accepts risk for the Compulsory Third Party exposure within the Indian Ocean Territories with administration outsourced to the private sector. It is possible that this type of approach could be adopted for other Insurance classes.

In the event of market failure (as defined within the Executive Summary), there is potential for Government to intervene. Such intervention may take the form of (for example) direct underwriting (or outsourcing of direct underwriting to a scheme manager) or provision of reinsurance (to direct insurers) for unacceptable catastrophic risks or unpredictable (or unmeasured) risks. These may be appropriately underwritten by the Commonwealth should the efforts of individuals and small/medium businesses in the IOT to obtain their own insurance policies be unsuccessful.

## General recommendations - Individuals

### 1. Small /Medium business

We recommend small to medium sized business investigate whether there is an industry body which promotes or maintains an insurance scheme for their members (such as Construction, Accommodation, Hire and Rental, Retail, Sporting groups, Religious or Community Groups etc.). The scheme may operate over a diverse geographic spread and not have the same focus on remote island community. Alternatively, investigate underwriting agencies and operators of insurance facilities (such as are outlined at <http://www.underwritingagencies.com.au/> or the member/specialty listing at <http://uac.org.au>)

### 2. Car Insurance

Individuals could explore Banks and Insurers call centres or online as we have identified cover is available for private vehicles direct with at least one Insurer.

### 3. Household Building and Contents Insurance

Individuals could contact their bank or approach insurers direct. It may be a time consuming process and they could also explore reduction in the cover generally available under standard policies (such as removal of cover for fusion, burglary/theft etc.) and possibly consider accepting a reasonably high excess.

### 4. Multiple occupancy dwellings (e.g. flats/units)

To be able to seek insurance, we believe it will be necessary to:

- gain the commitment of all unit owners within a single complex, it is not possible to insure select flats within an overall multi story complex
- include personal contents within overall policy for those owners who seek cover
- Ideally gain the agreement of multiple blocks of flats/units to purchase insurance collectively – this will add to the premium pool and may attract a wider potential insurance market including overseas Insurers.
- A broker may be able to structure the placement using several Insurers to lessen the exposure on any one market
- Review the perils for which insurance is required – It may be better to seek cover solely for limited perils such as fire, storm, cyclone, earthquake etc. rather than the broader cover including refrigeration breakdown, money, burglary etc.
- Review the level of excess/deductible required under the policy – the higher the excess, the potentially more attractive to Insurers and greater ability to negotiate a competitive premium.
- Provide considerable underwriting information – construction, maintenance approach, photographs etc.

- Be prepared the premium will be significant – (2 press examples attached showing premiums in Townsville of \$64,000 for 30 units and \$40,294 for 18 units.)

To implement any of these solutions will take time and effort on the part of the intending Insured. They will need to “sell” their risks to the Insurance market and not give up after one or two phone calls. This is generally the role Brokers play, however the Insureds will need to carefully select a Broker who is prepared to put the time in. With difficult risks such as these, brokers may expect to be remunerated for their efforts and may charge a fee. Our suggestion is for smaller clients who can not access an Industry scheme to pursue cover themselves via the internet and telephone first.

#### 5. **Insurance awareness**

To improve Insurance awareness, we would encourage networking groups and business forums to seek opportunities to have an insurance speaker periodically. This may also assist the Insurance market gain a greater awareness of the sense of community in the Islands and understanding of the types of properties and risks involved.



## Section 4 – Framework and Methodology

The Department of Regional Australia, Local Government, Arts and Sport (the Department) was aware that a range of issues have been impacting on the availability of insurance for businesses, community groups and residents occupying the Indian Ocean Territories. The Department engaged us to undertake a study on these issues in the market and to make recommendations to the Department.

We were contracted to research and provide an analysis of:

- gaps in the provision of insurance for residents, businesses and community groups operating in the Indian Ocean Territories,
- the reasons for these gaps,
- the risks to individuals, communities and the Australian Government associated with the gaps,
- identification of any legislative issues that the Department needs to be aware of, and
- ways of addressing the identified gaps.

### Initial briefing

On Tuesday 14<sup>th</sup> February we met with representatives from the Department of Regional Australia, Local Government, Arts and Sport - [Section 22](#) - to receive an initial briefing on the project and gain a deeper understanding of the issues and required outcomes.

### Data Collection (Community – businesses, community groups, individuals)

Prior to visiting the Islands we sought advice on how to best engage with the communities of Christmas and Cocos (Keeling) Islands.

Initial discussions were held with:

- Hon. Brian Lacy, Administrator, Indian Ocean Territories
- Mr. Ron Grant, Manager, Cocos Island Co-operative Society
- [Section 22](#), Assistant Director, Department of Regional Australia, Local Government, Arts and Sport, (Perth)
- Mr. Kelvin Matthews, CEO, Shire of Christmas Island
- Mr. Peter Clarke, CEO, Shire of Cocos (Keeling) Islands

Our view as a result of this initial engagement was that:

- A public notice advising of the visit would attract community interest and was recommended
- In recent times there has been a reasonable level of consultant reports undertaken on the Islands and community meetings may generate adverse reaction
- A Community meeting was not recommended for Christmas Island
- A survey would not be appropriate for Cocos (Keeling) Islands

## Section 5 – Timetable

14 <sup>th</sup> February	Initial briefing, Canberra
17 <sup>th</sup> February	Internal strategy workshop
29 <sup>th</sup> February	Letter of introduction provided by Department
From 28 <sup>th</sup> February	Contact with key stakeholders and community representatives
22 <sup>nd</sup> March	Questionnaire approved and distributed
From 30 <sup>th</sup> March	Island consultation
Friday 30 <sup>th</sup> March	Cocos (Keeling) Islands (West Island)
Saturday 31 <sup>st</sup> March	Cocos (Keeling) Islands (West Island)
Sunday 1 <sup>st</sup> April	Cocos (Keeling) Islands (West Island)
Monday 2 <sup>nd</sup> April	Cocos (Keeling) Islands (Home Island)
Tuesday 3 <sup>rd</sup> April	Cocos (Keeling) West Island / Christmas Island
Wednesday 4 <sup>th</sup> April	Christmas Island
Thursday 5 <sup>th</sup> April	Christmas Island
Friday 6 <sup>th</sup> April	Christmas Island
17 <sup>th</sup> April	Initial Island consultation debrief with Department
30 <sup>th</sup> April	Commenced formal liaison with Insurance Markets
1 <sup>st</sup> May	Internal outcomes workshop 1
14 <sup>th</sup> May	Internal outcomes workshop 2 and draft report workshop 1
28 <sup>th</sup> May	Report draft workshop 2
30 <sup>th</sup> May	Draft report submitted
5 <sup>th</sup> June	Draft report workshop with Department
3 <sup>rd</sup> July	Draft final report submitted to Department

## Section 6 – Overview of Exposure

We have been advised the Indian Ocean Territories [comprising Christmas Island and Cocos (Keeling) Islands] have the following general (approximate) population and insurable exposures:

### Christmas Island

Resident population	1,400
Privately owned houses	200
Privately owned units	200
Motor vehicles	2,100
Boats	180

### Cocos (Keeling) Islands

Resident population	600
Privately owned houses	18
Privately owned units	Nil
Motor vehicles / motor cycles	71
Boats	240

Motor vehicles include those owned by Government (which are either Insured or self Insured) and not all of the population seek to purchase Insurance.

On an approximate estimation, we believe the potential domestic insurance (house, unit, car and boat) premium pool based on the above statistics would be significantly below \$5,000,000.

As a result, we undertook to engage with the communities by:

### **Cocos (Keeling) Islands**

- All residents were advised of our forthcoming visit in the 22<sup>nd</sup> March issue of “the Atoll” newsletter by way of a Public Notice from the Department
- We were provided with a list of people who had expressed interest in the project or had personal interest in the outcomes of the project
- Every effort was made to contact and/or meet with these individuals and obtain their input
- Personal meetings were held with a large number of businesses, residents, community groups and Local Government
- We attended a small business owners networking event conducted by the Small Business Development Corporation and Cocos Keeling Islands Tourism Association and discussed issues with a number of interested attendees
- We door-knocked a number of residents and businesses
- We made ourselves available at the Cocos Club during times of plane arrival and departure, weekend afternoons and weekday evenings
- Where prior approval had been obtained, previous communication from residents had been passed to us
- Post visit contact was made with individuals who were “off Island” at the time of our visit

### **Christmas Island**

- We were advised residents were informed of our visit via “the Islander” newsletter and also the community notice blackboards adjacent to the “round a bout”.
- 677 Surveys were forwarded to all residents
- We were provided with a list of people who had expressed interest in the project or had personal interest in the outcomes of the project
- Every effort was made to contact and/or meet with these individuals and obtain their input
- Personal meetings were held with a large number of businesses, residents and community groups, the Administrator and Economic Development Officer
- We door-knocked a number of residents and businesses
- Where prior approval had been obtained, previous communication from residents had been passed to us
- Where necessary, post visit contact was made with individuals who were “off Island” at the time of our visit

## Section 7 – Community Engagement

Personal engagement occurred with a wide cross section of the communities of Christmas and Cocos (Keeling) Islands.

As not all persons were prepared to provide their names and many requested confidentiality, we summarise below the types of individuals, businesses and community groups from whom we contacted and obtained information:

- Australian Government Officials
- Banking official
- Builders
- Business people
- Car Hire businesses
- Cleaning contractor
- Committee/Board members
- Community Clubs and Associations
- Contractors (various)
- Crash repairer
- Dive operator
- Electrical retailer
- Electrician
- Flat and Strata owners/residents
- Food manufacturers/marketer
- Fuel distributor
- Individuals (numerous)
- IT consultant/technician
- Labourers
- Local Government Officials
- Local Government Elected Members
- Marriage celebrants
- Mine manager
- Motor repairer
- Museum/Historical Society
- Photography business
- Public servants
- Religious leaders / representatives
- Residential property owners
- Residential property tenants and leasees
- Resource Centre
- Retail businesses
- School representatives
- Security personnel
- Social worker
- Stevedore
- Supermarket operators
- Tourist operators
- Tourist accommodation managers
- Tourist accommodation owners
- Tradesmen
- Wedding planner

## Section 8 – Community Feedback

Unfortunately the response rate from surveys on Christmas Island provided an insufficient sample size to draw meaningful statistical conclusions and all results are therefore qualitative.

However, substantial and consistent feedback was obtained concerning the Insurance issues on the Islands and availability (and lack of availability) of Insurance does affect businesses, community groups and individuals – albeit to different degrees. Subsequent to our visit (but not as a result), the position has deteriorated further with one more significant Insurer withdrawing cover from the Indian Ocean Territories. Some businesses (and residents) who at the time of our visit were adequately covered, may not remain in that position within the next 12 months.

Our research findings are summarised as:

### Positive outcomes

- Large businesses (or those not exclusively located within the Territories) appear able to source adequate insurance
- Small business operators who are accredited members of industry bodies are better able to leverage and access industry schemes for provision of “core” insurance needs
- Private (single dwelling) home owners are better able to source building and contents insurance on Christmas Island, largely due to the strong support of Westpac Bank; however Westpac is unable to offer insurance for businesses
- Some individuals with mainland links (e.g. own domestic property or businesses) are able to leverage existing insurance arrangements
- Workers Compensation Insurance is readily available
- Crime exposure on the Islands is considered relatively low (compared to mainland Australia) and this was generally not perceived as a high risk exposure
- **Not all parties without insurance actually seek to be insured**

### Negative outcomes

- There is a distinct lack of insurance availability for:
  - individual domestic property owners on Cocos (Keeling) Islands
  - domestic contents insurance on both Christmas and Cocos (Keeling) Islands – particularly for leased/rented accommodation
  - contents of many business premises
  - building insurance for multiple occupancy dwellings (flats etc)
- No insurance companies maintain an office or have direct representation on either Island
- There is a lack of good advice around insurance issues for private individuals and small businesses (larger businesses are serviced from the mainland with providers making regular Island visits)

- There is a lack of awareness/understanding of
  - risk (and therefore the need for insurance) amongst some community sectors
  - the different types of insurance available and how to go about securing cover
- Inability to obtain insurance can impact the ability of local businesses to be eligible to compete for Government contracts (with the result some contracts are awarded to mainland businesses)
- For small business and domestic insurances, liability insurance is frequently packaged with building and contents insurance classes and the inability to purchase property insurance often impacts the ability to purchase liability insurance. This concerns some residents considerably and also impacted the preparedness of some domestic building owners to maintain “holiday rental” accommodation
- Some businesses (and individuals) take whatever insurance is available and this can result in gaps in cover
- Many individuals have experienced insurers withdrawing cover year after year (and this situation is becoming more prevalent)
- Premiums on Island were perceived by individuals and small businesses (who were able to source cover) to be expensive and where the cost of premiums being paid was shared with us we agree with their assessment. This situation is not restricted to the Indian Ocean Territories – many Island and remote communities face difficulty securing cover and are required to pay high premiums.
- Many Insurers advertise (via mainland TV transmitted to the Island) but are unable to underwrite cover (which can be frustrating)
- The process of seeking cover on-line can be frustrating as the application process must usually be fully completed before the application is rejected

### General observations

1. The key risk exposures vary between domestic and commercial operations however, of those struggling to find insurance, the following were generally considered the types of risks they sought to protect :
  - Fire
  - Cyclone (although many commented buildings are highly cyclone rated)
  - Action by the sea /tidal surge
  - Legal Liability exposures (to third parties/the public)
  - Sea transit risks (containerised cargo etc.)
  - Motor Vehicle (own damage and third party property liability)
  - Boats
2. Unfortunately there was a very low response rate to the surveys on Christmas Island (<3%). Whilst this could indicate there is not an Insurance problem on the Island, this is not reflective of our findings during personal meetings (approximately 50 persons interviewed). We suspect once interviewed (and views stated); individuals may have assumed it was not necessary to submit a survey form.



3. Regardless of the location (mainland or otherwise), there is likely to be a (usually small) segment of the community who are either unable or find it very difficult to purchase Insurance. Factors which contribute to this position (and we are not saying they apply to all cases in the Indian Ocean Territories), include:
  - Poorly maintained properties
  - Buildings with structural weakness or not built to code
  - Inadequate protection against obvious hazards
  - Inadequate risk management processes or approach
  - High individual risk exposure
  - Lack of organisation or preparedness to put in the effort

We stress the vast majority of people interviewed who genuinely sought insurance did not fall into these categories however for the sake of accuracy, we would be remiss not to identify there were a very small few who did.

4. Desire to purchase Insurance - It has been widely reported over the past decade that significant percentages of the Australian population are uninsured, for example:
  - 2008 Insurance Council survey of SME's found 26 per cent of all SMEs do not have any form of general insurance and sole traders have the highest rate of non-insurance with 40 per cent operating their business with no general insurance.
  - In 2009 the ICA estimated nationally that the percentages for non-insurance of domestic households are 4.1 per cent (for buildings) and 28 per cent (for contents). (*Insurance Council of Australia, Submission to the Victorian Parliamentary Economic Development and Infrastructure Committee Inquiry into State Government Taxation and Debt, 2009.*)
  - In 2004, the ANZ Bank released a report on Financial Exclusion in Australia – it included statistics such as 17% of people who owned their own homes lack building insurance and 66% of those with rental accommodation lacked home contents insurance.

There are a number of reasons contributing to this, including:

- Affordability, particularly amongst households on low incomes. Whilst some would prefer insurance they are not prepared or unable to pay the premiums involved
- Over confidence concerning the risks involved
- Potential and consequence of loss not fully understood
- Lack of understanding of insurance products
- Cultural beliefs
- Distrust of Insurance companies

It must be recognised in assessing any possible solution there will be a potentially significant percentage of the population in the Indian Ocean Territories who have no desire to purchase Insurance and this was confirmed to us by a number of people interviewed.

5. National Disaster Relief and Recovery Arrangements.

Under the joint Commonwealth-State Natural Disaster Relief and Recovery Arrangements (NDRRA), assistance is provided to alleviate the financial burden on states and some territories. It also supports the provision of urgent financial assistance to disaster affected communities.

The Indian Ocean Territories are **not eligible** for this assistance **via the NDRRA** Guidelines (2011) which may place individuals (suffering hardship), small business, primary producers and not for profit organisations at a disadvantage when compared to States and some other Territories. It is possible Commonwealth funding would be available direct (and not via the NDRRA).

## Section 9 – Insurance Market engagement

Following our engagement with the Island communities, we approached senior representatives of the following direct and intermediated insurance brands to ascertain their position with underwriting insurance in the Indian Ocean Territories:

- AAMI
- Allianz
- APIA
- Australis Underwriting Agency
- Buzz Insurance
- CGU
- Club Marine
- Corporate Home Unit Underwriting Agencies
- GIO
- Lumley
- Millennium Underwriting Agency
- NRMA Insurance
- QBE
- SGIO
- Suncorp
- Swann
- TIO
- Vero
- Wesfarmers Affinity and Direct
- WFI
- Zurich

In addition, we approached two brokers who currently act for clients in the region to ascertain their position and experiences. The two brokers were:

- MFP Insurance Brokers
- Westralian Insurance Brokers

Our findings also took into account our own experience broking insurance risks for clients in the region.

## Section 10 – Insurance Market Response

Not all Insurers who were approached responded, however feedback received indicates a reluctance to underwrite business due to factors such as:

- General Insurance Code of Practice contains strict performance and response standards which are difficult to adhere to in remote communities
- Small market size
  - Potential revenue not high
  - Insufficient potential revenue to justify cost of undertaking further research
  - Inadequate loss statistics
- Accumulation exposure
- Lack of fire fighting capabilities
- Past adverse loss experience in Island communities
- Rebuilding and repair costs are increased due to isolation
- Reduced salvage disposal costs / increased salvage recovery costs
- No current infrastructure maintained by Insurer (offices, representation etc)
- No claims network to provide adequate customer service
- High exposure (risk vs reward unsatisfactory)
- High reinsurance costs
- Corporate strategies to limit exposures in high hazard zones
- Don't actively pursue growth opportunities in high hazard locations
- Will only consider Island risks which are incidental to mainland accounts
- No statistical experience to determine pricing in these territories, and
- Cost of treatment, evacuation and alternative duties is substantial in remote island locations
- At least one insurer declined to state their position on the underwriting of insurance business within the IOT

Broker feedback identified issues such as:

- Insurers have gradually been withdrawing from offering cover over the past few years
- Insurance is now usually very difficult, if not impossible, to place and time consuming
- There is inadequate remuneration for effort involved
- Would be keen to expand involvement if insurance was more readily available

Currently Motor Vehicle Insurance is available on-line by select underwriters however there has been a gradual withdrawal by underwriters from the Territories (due to reasons outlined above) over the past few years.

**Gallagher general observations:**

Insurer geographical exposure - In recent times, Insurers have suffered substantial losses in remote and Island (and some mainland) communities as a result of natural hazard events and this has led to a review of participation by insurers in several geographical regions, including (but not limited to) the IOT.

## Section 11 - Legislative Issues

As a result of our research, we have not identified any legislative issues (other than as addressed elsewhere within this report) which impact the availability of Insurance within the Territories or of which the Department needs to be aware.

## Attachment 1 – Reproduced Press articles

### TOWNSVILLE APARTMENT COMPLEX SEES INSURANCE PREMIUMS TRIPLE DESPITE NO CYCLONE YASI DAMAGE

by: Tuck Thompson

From: The Courier-Mail

May 06, 2011 12:00AM

**SKY-HIGH: Ray Green, outside the Townsville apartments, says his bill will rise to \$2150 a year.**



Picture: Cameron Laird Source: The Courier-Mail

A TOWNSVILLE apartment complex left virtually untouched by Cyclone Yasi has had its insurance bill trebled, with hundreds of other body corporates in north Queensland taking similar hits.

Even before Yasi, insurers fearful of catastrophic losses were doubling or tripling annual premiums or refusing to cover buildings for body corporates from Mackay north.

Now another round of premium increases is possible.

At the Townsville complex, 30 unit owners are sharing an increase of \$44,741 a year after renewing their Zurich Insurance policy at the end of March.

Owners had budgeted for only \$6000 more than last year's bill of \$19,665. Instead they were hit with a quote of \$73,096, which they managed to reduce to \$64,406 after shopping around for coverage that didn't include flood or contents.

The complex had only a damaged window costing \$209 during Yasi.

"We used four different brokers and they came back with similar stories," said owner-resident Ray Green, whose insurance bill will jump from \$650 to more than \$2150 a year.

He pays \$230 for contents insurance. Government charges and broker commissions represent 26 per cent of the new bill.

A Zurich spokesman said brokers were notified in January that premiums for body corporates north of Mackay would increase by up to 350 per cent this year, based on a review of weather patterns, claims history and risk modelling.

Other companies ceased writing building coverage for body corporates in north Queensland. Zurich opted to stay but apply much higher rates.

Zurich spokesman Rob White denied the company was taking advantage of a disaster, saying building cover for body corporates wasn't a profitable product and its decisions were made pre-Yasi.

"Our timing was a bit off unfortunately," Mr White said. "We either had to put the premiums up or withdraw from the market."

Mr White said more premium hikes there were possible but unlikely in the short term.

Garry Maynard, president of the Queensland Body Corporate Association, was stunned when informed about the bill by The Courier-Mail. He owns a unit in Port Douglas and is anticipating a big hit when his renewal arrives.

"That's incredible - that's \$2000 each - for building insurance," he said. "I'm concerned this is going to happen to more body corporates."

Investment owners at the Townsville units will likely pass on the increased cost to tenants, who will be socked another \$25 a week.

Zurich body corporate customers in southeast Queensland had much smaller increases. A 24-unit Brisbane body corporate flooded in January had its premium rise at the end of March from \$9811 to \$11,182.



## UNITS INSURANCE UP 400 PER CENT AFTER YASI

Nine News

16:05 AEDT Tue Oct 11 2011

Darren Cartwright

Owners of a block of units that withstood Cyclone Yasi in far north Queensland have been left reeling by an almost 400 per cent increase in their insurance premiums.

Plantation Lodge, situated a block away from Port Hinchinbrook marina, where boats were trashed when Yasi swept through in February, was caught in the eye of the cyclone.

But the 18 strata title units refused to be bullied by the category five storm, which generated wind gusts up to 285km/h.

Unit owner Lyn Tough says the buildings sustained only minor damage, ranging from dented garage doors and aluminium window shutters to displaced satellite dishes.

Despite them being basically being cyclone proof, the body corporate was sent an insurance bill of \$47,189 for the buildings, which are valued at \$7 million.

In 2010, the insurance premium was \$12,470. In 2009, it was \$8,000.

After some haggling, the body corporate settled for a \$40,294 premium - a 500 per cent rise on their 2009 bill, but needed a loan to pay it.

"It's just ridiculous," Ms Tough told AAP.

"They are not even worth that (\$7 million).

"They (each unit) are worth about \$300,000 and that's even if you are able to sell them now."

According to RP Data sales, the most recent unit to sell at Plantation Lodge changed hands for \$245,000 in November last year - three months before Yasi struck.

"It's a beautiful spot, but with what has happened no one will be able to sell," Ms Tough said.

The Insurance Council of Australia (ICA) said insurance for strata title units had been under valued for years.

ICA general manager of risk assessment Karl Sullivan told AAP there was only one insurance company prepared to take on new policies over \$5 million in north Queensland.

He said the Plantation Lodge body corporate could possibly source an overseas insurance company to underwrite their buildings.

"In far north Queensland, going back three years, there were three players," Mr Sullivan told AAP.

"Two of them are not taking new policies, but they are doing renewals.

"There has been a quite a shift, not of the magnitude that we have seen in strata insurance, but there has been an increase in premiums right across Australia.

"People were paying about a third of what householders were paying for their strata insurance. It was so underpriced previously."

Mr Sullivan said premiums are calculated on the risk of insured events occurring and the costs of repairs and both of have increased which has led to a rise in premiums.

CGU Insurance, which has underwritten Plantation Lodge, says an increase in weather events, including smaller storms that receive less publicity, has contributed to increasing premiums.

"To ensure we can continue our commitment to insure our customers across Australia, now and into the future, we need to ensure our policies are priced in a way that reflects these increasing costs," a CGU spokesman told AAP.

"This particular property in Port Hinchinbrook made a significant claim as a result of damage from TC Yasi.

"This followed smaller claims in previous years.

"These claims would also be a contributing factor in the premium increasing at renewal time in 2011."

## MP'S VICIOUS ATTACK ON INSURANCE

Insurance Business

By Trevor Treharne | 30/05/2012 12:05:00 AM |

People will be "driven to destruction, marriages broken up and families disintegrating" as a result of Suncorp's decision not to offer flood insurance in Emerald and Roma, according to one MP's livid outburst.

Gregory MP Vaughan Johnson became the latest public figure to drag the insurance industry's reputation through the mud in the wake of the Queensland floods.

"These people have been absolutely kicked in the guts by the greatest leveller of the below-the-belt tactics you've ever seen in your life with Suncorp Insurance now saying they won't insure homes in the flood prone areas of Emerald and Roma," Johnson told The Queensland Times.

"Has Suncorp increased the premiums of those people [in Brisbane]? No, I don't think so. They should be ashamed of the policy settlement they have made and I ask them to immediately reverse."

Johnson said he knows of one constituent in Emerald whose policy has gone from \$1500 a year to \$7500 a year, which means an extra \$650 a month in payments.

"It's going to drive more people out of this great area," he said. "To be blaming the Central Highlands Regional Council for not having a flood mitigation program, I find that absolutely laughable.

"That council has worked its hardest since 2008 to deal with flood mitigation issues."

Johnson said CGU, NRMA and Alliance would not provide any flood cover in Emerald, nor renew existing policies, while RACQ and QBE had no flood product.

"Please revisit this policy announcement straight away and show some compassion and care and understanding to these people who have been driven to oblivion by something they couldn't predict themselves," he said.

"Those people who take out the policies in good faith should be given the courtesy of having those policies honoured in good faith.

"We're seeing these people driven to destruction, marriages broken up, families disintegrating because of these corporate players who are more interested in the bottom line and share basis of their competitors and their shareholders," added Johnson.

Earlier this month, Andrew Mair, executive general manager distribution at Suncorp Commercial Insurance told Insurance Business about the broker impact of the move: "Brokers seeking new or additional cover for business customers are encouraged to contact Vero as businesses will be assessed on an individual basis and cover offered accordingly.

"Brokers in the region continue to be kept informed regarding the ongoing embargo in these towns by Vero's local Business Development Managers."

**Suncorp chief executive Mark Milliner has said Suncorp had taken \$4 million in premiums in Emerald and Roma in the past two years and paid out \$150 million in claims.**

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