

Archers Seminars October 2014

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Overview

- Current Market Place for Far North Queensland
- Market Place
- Covers in a Specialist Strata Product
- Alternatives to traditional Strata Insurance
- Excess Buy Downs
- Initiatives in mitigating risk and reducing premiums



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Overview cont

- Insurance premiums in the future



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Current Market Place for Far North Queensland Strata Insurance

- There are 2 distributions models for providing Strata Insurance in Far North Queensland
- 1. Direct model where Committees or Unit owners apply directly to Insurers like RACQ or Wesfarmers



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Current Market Place for Far North Queensland Strata Insurance cont

- 2. The licensed Broker or the Authorised Representative Strata Manager model
- Insurers within the Broker/Authorised Representative model
 - Strata Unit Underwriters
 - Longitude Insurance
 - Brooklyn Underwriting

Current Market Place for Far North Queensland Strata Insurance cont

- Mobius Underwriting
- QUS

Strata Unit Underwriters

- Specialist Underwriting Agency that uses CGU as their security
- Has the capacity to provide cover for Buildings up to \$100+ million sum insured
- Has risks on the FNQ Islands but is very selective on insuring new island risks



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Strata Unit Underwriters cont

- Has a separate (and higher) named Cyclone excess



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Longitude Insurance

- Specialist Underwriting Agency that uses Vero as their security
- Has the capacity to provide cover for Buildings up to \$200 million sum insured
- Cannot write business on islands
- Has a named cyclone excess that is typically applied at \$1,000 per lot

Brooklyn Underwriting

- Brooklyn is a multi appetite underwriting agency that released their “Tropical Strata” product in May 2014.
- They are limited to writing a combined Building and Loss of Rent sum insured of \$15 million.



Brooklyn Underwriting cont

- They can only write properties that are more than 500 metres from the shore line
- They apply a \$1,000 per lot excess for Named Cyclone

Mobius Underwriting

- Mobius is an Underwriting agency that has recently developed a Strata Product
- They use Lloyds of London for security for the property section and ACE insurance for Liability and other lines
- They have just commenced writing risks in Far North Queensland

Mobius Underwriting cont

- They do apply a named cyclone excess but they do not use the \$1,000 per lot formula of some other insurers. In quoting we have found that they are sometimes more than the aggregate of \$1,000 per lot



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QUS

- QUS are an established specialist strata underwriting agency
- They have recently announced that they will be using AIG Australia Limited as their new security
- We have been told that they will have the capacity to write strata risks in FNQ but we do not yet have the details

Covers Available in Specialist Strata Policy

- Insured Property
 - Covers replacement costs of Building, Common Property and Loss of Rent/Temporary Accommodation
 - Catastrophe cover is a an optional extra cover that is charged for



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Specialist Strata Covers Public Liability

Covers personal injury or property damage to third parties that has been caused by the property owned by the Body Corporate



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Specialist Strata Covers Voluntary Workers

- Covers payment to Voluntary Workers who are killed or injured while working on behalf of the Body Corporate
- There is a lump sum payment for death or permanent disablement and weekly payments for “lesser disablements”. The weekly payment is up to a 2 year period



Specialist Strata Covers

Fidelity

- This provides cover for fraudulent misappropriation of the Body Corporate's funds

Specialist Strata Covers Office Bearers

- This cover is to provide defence costs and any potential settlement costs for the members of the Body Corporate Committee
 - As a broad view it protects the committee for any allegations that they did not act in the best interests of the Body Corporate

Specialist Strata Covers

Machinery Breakdown

- This cover is for the repair or replacement costs of machinery that has broken down.
 - It is meant for large machines that are owned by the Body Corporate. Machines like lift motors, centralised air conditioning units, large motors in pool pumps, exhaust fans etc
 - The property section of the policy covers fusions for small motors



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Specialist Strata Covers Tax Audit

- This covers any costs incurred in preparing the Body Corporate's accounts for any government audit. It does not cover resulting fines or penalties



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Specialist Strata Covers Defence Costs

- This covers Defence Costs for alleged breaches of Occupational health and Safety Legislation



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Alternatives to Traditional Strata Insurance

- There are alternatives that meet legislative requirements to the specialist strata policies
- These alternatives do not provide all covers within in one package so a series of separate policies will need to be placed to cover all of the risks

Alternatives to Traditional Strata Insurance cont

- Industrial Special Risks (ISR)
- -An ISR policy is a bespoke property only policy that covers Named Fire and Perils (including Cyclone), Accidental Damage and should include Loss of Rent/Temporary Accommodation
- - It can also include Catastrophe Allowance and Machinery Breakdown

Alternatives to Traditional Strata Insurance cont

- The ISR policy has a series of sub limits that are designed by the Broker to ensure all risks are covered off with appropriate sums insured.

ISR Market

- Typically ISR is for property with very high asset values (more than \$25 million) or for property owners that have properties in multiple locations. The rating on an ISR policy provides lower rates for higher sums insured.

ISR Market cont

- Insurer's with an appetite for Far North Queensland is again limited. AIG, Vero, QBE and Lloyds of London can be the most likely markets
- The Underwriters also take into account location, occupancy, building construction and age and fire protection.



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ISR Market cont

- Properties with lower replacement values do not achieve the rating discount that make the ISR option viable
- ISR policies always come with higher basic property damage excesses, starting at \$1,000 and can go as high as \$5,000 if the size of the risk or claims history warrants it



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ISR Market cont

- Named Cyclone Excesses are always applied and depending on the size of the building often start at \$50,000 with \$100,000 not uncommon



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Other Ancillary Covers

- Liability, Office Bearers and Voluntary Workers
- - Each of these covers would need to be placed as separate policies to ensure that the remaining risks covered under a Strata package are insured.
- - It is common that that these are placed with different insurers to the ISR policy

Other Ancillary Covers cont

- When we add the ISR, Liability, Office Bearers and Voluntary Workers policies together we are sometimes able to provide premium or Cyclone Excess relief. This is not often an option for buildings with lower sums insured

Business Pack and Ancillary Lines

- For Buildings with smaller sums insured there is an option that the property cover is placed under a Business Pack and the Ancillary lines be placed as per the ISR option

Business Pack and Ancillary Lines cont

- We have had limited success with this because the Insurers that can write residential property within this wording are limited.
- For those that can provide terms we find that when we add the ancillary lines cover there is no premium relief at all

Excess Buy Downs

- In order to reduce premiums many larger buildings elect to have a very high named cyclone excess.
- It is not uncommon to see this excess starting at \$100,000 and sometimes even higher



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Excess Buy Downs cont

- There is a product available, usually underwritten by Lloyds of London that charges a premium to reduce the named cyclone excess to a nominated amount that is affordable to the Body Corporate

Excess Buy Downs cont

- By taking a higher named cyclone excess on the property and buying down that excess we sometimes see premium savings compared to electing to take a premium with a comparable lower excess in the property insurance



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Initiatives to Mitigating Risks and Reducing Premiums

- CGU Insurance in conjunction with their specialist underwriting agency Strata Unit Underwriters launched their Residential Strata Resilience project in April 2014

Initiatives to Mitigating Risks and Reducing Premiums cont

- At their own cost they have engaged engineers to assess building construction type and method, exposure and resilience to wind driven rain, as well as hazards and possible defects
- On completion of the assessment CGU/SUU revisits the premium with a view to reducing it where possible

Initiatives to Mitigating Risks and Reducing Premiums cont

- To date 100 assessments have been completed with average premium savings of 11% with the highest saving 29%

Mitigating Risk

- After the devastation of Cyclone Yasi the Insurance Council of Australia commissioned James Cook University to look at Strata Building risks by reviewing claims data
- The report recommended the following:
 - Engineering based inspections to be completed every 7-10 years



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Mitigating Risk cont

- Development of an awareness program to highlight maintenance issues, such as appropriate paint coatings and timber treatments, importance of well maintained and installed roofing, stronger locks on doors and windows and removing and storing shade structures prior to a cyclone

Mitigating Risk cont

- The report also noted that larger multi story buildings also had a higher rate of claims (usually due to water ingress) than low rise buildings due to having more doors and windows exposed to extreme weather

Insurance Premiums in the Future

- There is increased competition developing for Far North Queensland strata risks
- There is growing capacity within the market with the recent entry of Brooklyn, Mobius and soon to be QUS.

Insurance Premiums in the Future cont

- These entrants will challenge the status quo but will they test their rates carefully. I do not expect to see a return to the pre Yasi premium structures but I am hopeful that more competition will lead to premium savings in the future