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Independent strata study recommends regular inspections to reduce premiums

An independent study by James Cook University's Cyclone Testing Station recommends strata-title properties in Tropical Queensland undergo regular engineering inspections to ensure these are resistant to future extreme weather events, and to improve understanding of the buildings' potential performance during these events.

Undertaking a specialist engineering inspection of the building will help strata owners and strata managers address any vulnerabilities that might exist. These inspections could also help to demonstrate to strata insurers that some buildings may be low risk.

The Insurance Council of Australia (ICA), which commissioned the study, is prepared to provide insurance expertise and advice to any government project aimed at developing an inspection regime that focuses on assisting strata owners in Far North Queensland.

The three-month study examined strata building risks from cyclonic weather by reviewing policy claims data from a number of insurers. The focus of the study was on policies active in 2010 and 2011, and claims data from those associated with 2011's Cyclone Yasi.

Key recommendations

Conduct engineering-based inspections every seven to 10 years

- **Benefits:** provides insurers with evidence of inspections and actions taken to mitigate risk, with the potential for a reduction in insurance premiums and excess due to lower risk.
- **Property identification:** inspection process helps identify potential vulnerabilities and focuses on issues that could be addressed to improve the building's resilience
- **Check list:** property rating focuses on structural and non-structural elements such as losses associated with water ingress and ancillary items damage

Develop an awareness program to highlight maintenance issues such as

- Information on appropriate paint coatings and treatments of timber
- Importance of well-maintained and installed roof cladding and roof edges
- Additional locks or bolts on doors and windows
- Removing and storing shade cloth structures prior to a cyclone event.

New study required on water ingress from wind driven rain

- Water ingress has been identified as a key factor in insurance claims
- To minimise this risk, the study would seek a greater understanding of the relationship of rain intensity and wind gusts on strata title property and identify economic solutions to reduce the amount of damage from water ingress.

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Insurance Council CEO Rob Whelan said the study found the age of a property had less influence on claims than factors such as water ingress from wind-driven rain and the compounding effect that damage to ancillary items, such as television aerials and fences, could have on buildings.

“The combination of high winds and driving rains typical of cyclones mean that water can find its way through doors and windows, while damage to a TV aerial or to guttering can leave a roof exposed to water and further damage to the interior of a property,” he said.

More than 80 per cent of claims investigated noted some form of damage from water ingress.

The study also found larger, multi-storey buildings have a higher incidence of claims and higher claims costs than low-rise buildings. This is because they have more windows and doors exposed to weather events.

“The fact is properties in Tropical Queensland are exposed to a much higher cyclone risk of damage to life and property than most of the rest of Australia,” said Mr Whelan.

“Where the risk is higher this is generally reflected in higher insurance premiums. However, the ICA and the insurance industry are committed to working with governments and communities to reduce these risks where possible.”

In the past 20 years, the ICA has declared 12 cyclones as catastrophes, with these causing combined insured losses of \$2.32 billion. The biggest event, Cyclone Yasi in 2011, caused \$1.4 billion in insurance losses. Damage caused by ex-Cyclone Oswald in 2013 caused a further \$1.1 billion in losses in Queensland and New South Wales.

The study was commissioned by the ICA after an independent report by the Australian Government Actuary in late 2012 found strata insurance prices in Tropical Queensland had been adjusted to account for the increased risk of damage caused by cyclone and storms to properties in the region.

The Actuary concluded insurer’s pricing was fair, with premiums increasing following many years of underpricing by insurers in the region and noted competition remained in the insurance market.

The full report is available on the ICA website: <http://www.insurancecouncil.com.au/issue-submissions/reports/independent-strata-study>

The Australian Government Actuaries report into strata-title insurance is available here: http://www.aga.gov.au/publications/Strata_Title_Insurance_Price_Rises/default.asp