



VICTORIA
BODY CORPORATE
SERVICES PTY LTD
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Budgeting for 2012 Insurance Costs

Source: January 2012 Elevation edition

Budgeting for 2012 Insurance Costs

Insurance has been a common topic lately due to the increase in premiums being felt nationally. CHU, one of Ernst's main insurance providers, has kindly written an article to help both our team members and clients set their expectations when budgeting for insurance costs in 2012.

CHU

Strata insurance customers around Australia have had to deal first-hand with an unprecedented level of storm and catastrophic events this year. Against this tough economic background, CHU reviewed its pricing and implemented, from 1 January 2012, a structured increase in premiums ranging from 10 to 20 per cent in most cases. We are also applying variable excess amounts on most policies because this helps minimise future premium increases.

Over the last few years, CHU has mostly managed to hold rate increases to single figures as claims increased substantially.

Weather is a key factor

In 2011, we had the Queensland flooding, Cyclone Yasi, severe storms in Melbourne and bushfires in Perth which have culminated in another expensive year of losses for the Australian market. Outside of Australia, major weather related events included the tragic earthquake in Christchurch and the devastating Japanese tsunami, both of which left a trail of devastation that is difficult to comprehend. And even more recently, the earthquake in Turkey and the Thailand floods will only add to the insurance losses already seen for 2011.

Premiums are set to rise to sustain the long-term viability of insurers, including strata underwriters.

Factors that have led to these price increases have been well publicised. Some of the main reasons include:

1. An increase in the frequency and size of claims across Australia. Cost of claims in the general insurance industry has risen by *52 per cent from \$23.6 billion in June 2010, to \$35.9 billion in June 2011.
2. A 40 per cent increase in the average cost of everyday claims in strata for things such as broken glass, burst pipes, graffiti etc, in the last three years.
3. Re-insurers (insurance company insurers) have increased their premiums significantly to recoup losses paid out on worldwide natural catastrophes, with a flow-on effect of increasing the cost of local insurances.

Historically, strata insurance policies have been underpriced when compared to the risks they cover. Many Bodies Corporate have been paying a third of the premiums paid on average for an equivalent stand-alone home insurance policy. (**Refer to ICA Fact Sheet Oct 2011).



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Collective strata insurance remains considerably cheaper than a stand-alone home insurance with a similar sum insured amount, and strata policies remain good value for money.

We endeavour to keep any increases in premium to a minimum but it is important to apply realistic pricing so that CHU can continue to provide the level of service and cover expected from Australia's leading specialist, as well as ensuring the long-term protection and financial security of Bodies Corporate assets and people.

Source:

*APRA Report General Insurance Performance June 2011

**Insurance Council of Australia (ICA) Fact Sheet – Residential Strata Insurance in Australia –

www.insurancecouncil.com.au/Default.aspx?tabid=1915council.com.au/Default.aspx?tabid=1915