

TERRORISM INSURANCE ACT: STRATA INSURANCE LEVY CHANGES

From July 1, 2017, some residential Strata Insurance policies will experience significant total premium changes as a result of amendments to the Terrorism Insurance Act 2003 (Cth). The changes apply Australia wide, and relate to the introduction of a Terrorism Levy.



What are the changes?

1. Property types eligible for insurance compensation as a result of incidents officially declared an act of terror by the Commonwealth Government has been expanded. The eligible definition now includes some **mixed use commercial and residential Strata buildings**.
2. The definition of the terrorism insurance cover exclusion in the Terrorism Insurance Act has also been changed. The cover exclusion definition has been widened to now exempt acts of terror described as “chemical”, “biological”, “polluting”, “contaminating”, “pathogenic”, “poisoning”, or words to similar effect.

While both changes are important to note, the change in the Act that will affect your premium and be of greatest concern come July 1, will be the broadened ‘property type’ definition.

What are the implications of the broadened ‘property type’ definition?

From July 1, 2017, new government imposed Terrorism Levies of up to 16% (plus statutory charges) will be applied to Strata Insurance policies that sit within the definition of eligible properties.

The definition of properties where the Terrorism Levy currently applies has been widened in the changes to now include:

- Buildings where at least 20% of the floor space is utilised for commercial purposes
- Residential buildings with a Sum Insured equal to or greater than \$50 million

How are Strata buildings affected?

Commercial Strata

Commercial Strata buildings will all continue to be charged a Terrorism Levy, the only change here surrounds what is actually classified as a commercial Strata building.

Changes to the Act mean that the definition of a commercial Strata building has now changed to include residential Strata buildings where commercial enterprise accounts for greater than or equal to 20% of the floor space in a building.

As of July 1, buildings that meet this classification will be charged a Terrorism Levy as a component of the total Strata Insurance premium.

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How are Strata buildings affected?

Residential Strata

Previously, residential Strata properties have been exempt from the Terrorism Insurance Levy, however a widening of the eligible property definition in the Act means this is no longer the case. Criteria set out by the Australian Reinsurance Pool Corporation (ARPC) stipulates that:

A Terrorism Levy will be charged on all residential Strata Insurance premiums where one or more single buildings have a Sum Insured equal to, or greater than \$50 million.

To clarify further, ARPC compensation coverage under the Terrorism Act 2003 (Cth.) does not apply for Strata schemes with multiple residential buildings with a combined Sum Insured under \$50 million. In this instance, if terrorism cover is required, the policy feature will need to be arranged through a Strata Insurer.

Why the changes?

The Terrorism Insurance Act 2003 (Cth) was initially introduced to grow an insurance pool that pays affected commercial entities in the event of a terrorism incident.

Amendments to the Act have occurred due to the increased number of mixed-use Strata buildings being developed. Many large residential Strata properties now include numerous commercial operations e.g. restaurants, gyms, offices etc. and as such, the government saw the need to widen the eligible property definition to include them in compensation that can be paid out under the Terrorism Insurance Act.

How will this impact you?

From July 1, 2017...

1. All commercial Strata buildings will continue to be charged a Terrorism Levy.
2. In a residential Strata building where 20% or more of the floor space is classified as commercial operations, you will see a Terrorism Levy charged, and subsequently an increase in the total Strata Insurance premium.

How will this impact you?

3. In a residential Strata building where one or more single buildings have a Sum Insured equal to or greater than \$50 million, a Terrorism Levy will be imposed on your total Strata Insurance premium.
4. If your building does not fall into either category as set out by the Terrorism Act, but still needs cover for building damage as a result of a terrorism incident, speak to your insurance broker or insurer to determine the coverage options available.
5. Owners Corporations for eligible properties should factor in an increase to the Strata Insurance premium when setting budgets for the 2017/18 period.

How are insurers applying the Terrorism Levy?

At this stage, it appears each insurance company will apply the spread of the terrorism levy in a different way.

Initially, we have seen some insurers utilise a tiered approach with respect to the physical location of the Strata property. Essentially this means that in locations where insurers perceive the occurrence of a terrorism incident to be higher, the Terrorism Levy charged will be greater than in those areas with a lesser perceived risk of an incident e.g. rural locations.

As more information comes to hand on how each Strata insurer plans to manage the application of the Terrorism Insurance Levy, Resolute will keep you informed.

If you have any questions, or would like to discuss this issue further, please contact your Resolute Account Manager Ph. 1300 668 033 or email info@resolutepropertyprotect.com.au.

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