STRATA INSURANCE
SERVICES

INSURANCE BROKER FEE'S AND INSURANCE COMMISSIONS

2021

WHAT WORK IS PERFORMED FOR INSURANCE BROKER FEES AND INSURANCE COMMISSIONS?

INTRODUCTION

Insurance Commissions and broker fees are often treated as a taboo subject by Insurance Brokers and Strata Managers, as a result they are often misunderstood by owners and Owners Corporations. There is a general lack of information and awareness regarding commissions, fees and the work involved in placing and managing the insurance policies for an Owners Corporation.

The following brief attempts to lift the veil by outlining what insurance commissions are, how they are paid, what work is performed by brokers and managers when arranging and administering your insurance policy during the year, as well as the common mistakes made by Owners Corporations surrounding their insurances.

WHAT ARE COMMISSIONS?

Insurance Commissions are often paid to Insurance Brokers (and Strata Managers) by Insurance Underwriters (Insurers) for the administrative work in involved in selling, advising, and administering the placement of insurance policies to consumers.

The amount of commissions paid (usually a percentage of the base premium) will depend on the complexity of the type of insurance, the advice given and the work involved in implementing and administering the policy during the period of insurance, including claims management etc.

As an example, common insurances such as vehicle or home and contents insurance are often sold directly to the public as such no commission is paid as there is no intermediary involved. The consumer is reliant upon their own research, disclosures, and product knowledge.

Due to their speciality and complex nature, consumers will often engage the services of an Insurance Broker to advise them on other types of insurances such as Life Insurance, Income Protection or Trauma Insurance. These insurances will usually have varying levels of cover and will need to be tailored to meet the individual circumstances of the person that requires cover. Usually, the consumer does not pay the broker directly for these services, rather a commission is paid by the insurer directly to the broker which should be disclosed to the policy holder. In some instances commissions for life insurance policies can be as high as 80% in the first year and 20% ongoing for advice given for the duration of the policy.

STRATA INSURANCE

Strata Insurance is a very specialised type of insurance that is not widely understood outside of the Strata Management sector. There are various compulsory as well as voluntary insurances that can be effected by an Owners Corporation and like a life insurance policy, they should be tailored to suit the specific needs of an Owners Corporation and Strata Committee.

Insurance Brokers and Strata Managers will often work in conjunction to gather the necessary data to provide to the insurance underwriters, so they are adequately able to assess the risks involved and provide quotations for cover.

The administrative work that occurs on the annual renewal of the insurance policy includes but is not limited to;

- Obtaining an Annual Insurance Valuation
- Gathering Claims Data (minimum 5 Years)
- Disclosure of pertinent information, for example:
  - Outstanding Building Defects,
  - Major rectification or building upgrades
  - Occupation of lots
  - Notification of potential claims
  - Other significant events that could impact cover
- Confirmation (or otherwise) of your building's compliance with various legislative requirements, including;
  - Completion of the Annual Fire Safety Statement
  - Installation of Child window safety devices,
  - Work place health and safety obligations
- For NSW owners, obtaining a minimum of 3 insurance quotations per renewal
- Negotiating Premiums with underwriters
- Providing advice on the different quotes/policies provided and providing a recommendation for cover
- Placing cover with the selected insurer
- Paying the annual premium

For the duration of the insurance cover, the Strata Manager and broker are also responsible for ongoing policy management, including but not limited to;

CLAIMS MANAGEMENT

- Arranging necessary works,
- Appointing assessors, (where required)
- Lodging police reports, (where required)
- Lodging Claims

DISCLOSURE MANAGEMENT

- Changes of Tenancy or Occupation
- Development Applications lodged
- Failure of any statutory compliance
- Significant changes in Building Sums insured
- Completion or commencement of major building or rectification work
- Notification of potential claims (e.g. slip and fall or public liability claims)

GENERAL ADMINISTRATION

- Issuing Certificates of Currency to owners and mortgagees upon request
- Effecting changes to cover following the Annual General Meeting
- Fulfilling disclosure obligations pursuant to Section 60
- Initiating Action pursuant to section 82 (which allows increases in premiums to be paid by the lot/s that caused the increase)
- Educating owners and tenants of their rights and obligations under the strata insurance policies

CAN OWNERS UNDERTAKE THE POLICY RENEWAL THEMSELVES?

The simple answer is Yes, nothing in the Strata Schemes Management Act 2015 precludes a strata committee from effecting the insurances on behalf of the Owners Corporation, however the committee may not have ready access to all the pertinent building information to provide adequate disclosure to underwriters or the requisite product knowledge to make an informed decision.

As noted earlier, Strata Insurance is a very specialised form of insurance that is largely misunderstood by mainstream underwriters. Many 'standard' policies that are applied for Strata Schemes are common house and contents policies that do not provide cover for the statutory or voluntary insurance provisions of the Strata Schemes Management Act, including;

Voluntary Workers Insurance	Legal Defence Expenses	Loss of Market Value
Office Bearers Liability	Government Audit Costs	Optional Floorboard Benefit
Fidelity Guarantee	Electronics	Optional Paint Benefit
Public Liability	First Loss Terrorism	Catastrophe Cover
Appeal Expenses	Flood Cover	Pollution Defence Expenses

Many strata owners are also surprised to learn that an Owners Corporation has an unlimited liability, meaning that individual lot owners may be exposed to a personal liability should the Owners Corporation insurances prove to be inadequate.

DO COMMISSIONS ALLOW INDEPENDENT ADVICE?

The payment of commissions in many sectors, particularly financial services, have come under increasing scrutiny in recent years, particularly as there is a perceived conflict of interest for a broker/advisor that will receive a higher commission for recommending an insurance policy or product with a higher premium.

This has been solved in part by the requirement in NSW for Owners Corporations to obtain 3 quotations for renewal, as well as the obligation within the Strata Schemes Management Act that any commissions received be disclosed to owners at the Annual General Meeting.

Strata Insurance Services takes this one step further and DOES NOT receive commissions from insurance underwriters, rather an administrative fee is applied which is the same regardless of which quotation for renewal is selected by the Owners Corporation.

COMMON MISTAKES WHEN RENEWING AN INSURANCE POLICY

Insurance underwriters base their premiums on the risk associated with what they are insuring.

For example, with a life insurance policy the insurers will ask basic questions to assess risk, i.e Age, sex, weight, general health, smoker/ non-smoker and factor these elements into calculating the risk and the premium for the policy that they are providing. Similarly, many motor vehicle insurers such as YOUi will change their risk rating (and hence premium) depending on the type of vehicle, use, kms driven, driver record etc.

The same philosophy should be applied to a Strata Insurance policy, regrettably however many Owners Corporations fall into the trap of a set and forget type of mentality and seldom review their policy.

MISTAKE 1 – UNDER AND OVER INSURING

Underinsuring (a)
Many owners believe that they can 'beat the system' by deliberately understating their Building Sum Insured (BSI) or simply by leaving the same BSI in place year after year. The benefit, they believe, is a reduction in their annual premium, however the exposure to the Owners Corporation is never worth the risk.

In the event of a claim, the insurers are at liberty to only pay out the percentage of the BSI vs the Actual Value. For example, if the BSI was assessed at $1,000,000.00, however insurance for only $800,000.00 was effected, the insurers are at liberty to pay out 8/10ths of the claim value.

Over-insuring (b)
Conversely, many owners confuse the market value of their property vs. the total replacement cost of the building, hence end up paying above market premiums for an over-insured asset.

To overcome both mistakes outlined in (a) and (b) above, it is recommended that an Owners Corporation obtain a professional insurance valuation regularly so they are aware of their BSI and they can insure adequately.

MISTAKE 2 – DISCLOSURE AND NON-DISCLOSURE

Disclosure is often misunderstood in the insurance realm and it is usually tarred with a negative brush.

Strata Insurers assess risk on an individual building basis. There are various elements that are used to assess risk including, BSI, location, claims history, type of construction, zoning, use of lots, security systems, as well as other equipment and apparatus installed at the property.

Modern apartment buildings have become extremely sophisticated in their construction. As an example, most newer strata schemes will come equipped with fire suppression systems, security systems, EWIS systems, child window safety lock devices, anti-slip coatings and a myriad of other appliances designed to mitigate risk, yet few Owners Corporations will go to the extent to advise their insurer that these systems have been installed.

For existing schemes, where a significant upgrade has been undertaken, e.g. fire upgrade, defect rectification or say installation of a new security system (e.g. restricted keys, swipes, security cameras, security gates etc), even the installation of signage to warn residents of potential dangers, these should be notified to the insurers.

Where your scheme engages in preventative maintenance programs or risk management strategies these should also be notified to your insurers. By doing so your Owners Corporation demonstrates that they take a proactive approach to their scheme and are serious about mitigating risk, which in turn makes your scheme a more attractive risk to the underwriters.

Insurers understand that accidents happen – it's the basis of their entire business model, so when something unusual does occur such as a slip and fall, defect rectification or council order these must be notified to your insurer so they are put on notice, this is a standard condition of every type of insurance cover. Here it should be noted that advising the underwriters will not necessarily negatively impact your premium, and you will protect your liability should a claim eventuate.

MISTAKE 3 – CHASING THE CHEAPEST QUOTE

Unlike purchasing say a motor vehicle, where most consumers are familiar with the differences in brands, quality, price, features etc, deciphering the pros and cons of any insurance policy can be difficult.

Many Owners Corporations fall into the trap of simply selecting the 'cheapest' quote without understanding the benefits of the policy or the cover that they are purchasing.

Similarly owners will change underwriters year upon year without trying to negotiate with their current provider to match or beat rival quotes.

Where a scheme continually bounces between underwriters, this can cause red flags between the providers and actually end up costing more in the long-term, in other words loyalty does have its benefits.

We hope you found this informative, for more information contact your Strata Manager.

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