

INDEPENDENT REVIEW OF STRATA INSURANCE PRACTICES

Phase 3: ENERGISING THE STRATA INSURANCE MARKET

A blueprint for affordability, availability, competition

Synopsis - John Trowbridge 16 May 2023

Insurance industry specialist John Trowbridge has released his Phase 3 paper “Energising the strata insurance market: a blueprint for affordability, availability and competition”.

This Phase 3 paper follows Phase 1 last July on transparent disclosure of intermediary remuneration (fees and commissions) and Phase 2 in December on potential remuneration reforms.

The paper identifies two clear priorities to be attended to without delay by industry initiatives. The first is implementation of the Phase 1 disclosure regime. The Strata Community Association has announced that it is actively pursuing these recommendations with its own members and the broking community. That is a valuable initiative for the strata industry and will be enhanced by the 2022 Insurance Brokers Code of Practice which has introduced new disclosure measures for insurance brokers to address the issue of transparency.

The second concerns insurance market capacity which is constrained. The insurance industry, comprising insurers and underwriting agencies, is being urged to investigate, in collaboration with representatives of broking houses, strata management groups and owners’ corporations, what steps can be taken to alleviate the market capacity problem.

The paper also draws attention to owners’ collective responsibilities for building maintenance and repairs, remediation of defects and other matters affecting insurance risk including, importantly, the management performance and effectiveness of the owners’ corporation and its strata committee. Good governance and effective management are lacking in many owners’ corporations. In those cases, it is hardly surprising that underwriters may take a negative view of the insurance risk. There is a need for greater awareness and more educational opportunities for owners that extend beyond the basics of apartment ownership to the insurance and risk management domain.

Other topics covered include the potential for greater transactional efficiencies within the insurance purchasing chain and the potential benefits of strata insurance data collections for both insurance portfolio management purposes and for the underwriting of individual risks.

Specific affordability topics include better access to a range of policy excesses (higher excesses can lead to lower premiums), Government charges and features of intermediary charges. On Government charges, the paper adds yet another voice to the multitude of calls to Governments over many years either to remove or to reformulate stamp duty and, in NSW, to replace ESL with a more equitable funding model for emergency services.

On intermediary charges, the paper advocates that owners’ corporations satisfy themselves as to the appropriateness of fees and commissions, particularly if the charges are above ‘market’ and also noting the automatic increases that in most cases follow rising premiums. Additionally it directs attention again to the conflicts of interest explained in the Phase 2 paper that are inherent in the *commission rebate/broker fee system*. These matters raise questions of fairness to the customer and customer best interests which ultimately are a matter in each case for the owners’ corporation but can only be assessed when the owners are receiving full disclosure of remuneration details.

An availability issue also considered is replacement value cover. Legislation in every State and Territory requires owners to have replacement value cover but underwriters do not offer it. Instead they offer sum insured cover and leave the owners with responsibility for its adequacy. There has to be a better way. Insurers and underwriting agencies are encouraged to work on finding an economic solution to offering replacement value cover and reworking their premium scales to fit.

For the full paper and more information including the Phase 1 and Phase 2 papers, please visit the website www.johntrowbridge.com.au or email john@trowbridge.com.au.