

Benchmarking Strata Insurance Broker Pricing

The purpose of this paper is to explain and present a set of pricing benchmarks for fees and charges by strata managers and brokers in the strata insurance market.

The NSW Fair Trading Commissioner has requested its preparation to assist owners of strata properties and their strata committees to assess the fairness and competitiveness of the fees and charges included in the insurance proposals presented to them by their strata managers and/or their insurance brokers.

The paper comprises the following sections –

Overall summary	2
Preface: How strata insurance works	3
Assessing intermediary charges in today's strata insurance market	4
Summary with definitions and notes	5
Fairness and best interests	7
Open market and closed market pricing	8
Benchmarks for open market pricing	9
A. Commission rebate/broker fee arrangements	10
B. Fee only with sharing between strata manager and broker	12
C. Fee only for broker, no sharing between SM and broker	14
Genesis, independence and sources of information	15
Appendix: More on genesis, independence and sources of information	16

Benchmarking Strata Insurance Broker Pricing

Overall summary - Benchmark pricing in today's strata insurance market

There are three categories of intermediary pricing to consider for each of small scale, medium scale and largescale properties¹. All pricing benchmarks are relative to **base premiums**².

- **Commission rebate/broker fee**³, see footnote; uses gross base premium⁴. i.e. with commission)
- **Fee only with sharing** of the fee between strata manager and broker (no commission) – apply to net base premiums⁵
- **Fee only for broker, no sharing** with or allocation to the strata manager and no commission.

Typical prices for insurance brokers and strata managers to obtain strata insurance

Method of charging	Insurance broker price	Strata manager price
Small scale strata schemes (i.e. insurance base premium generally less than \$5,000)		
Commission rebate/broker fee	\$300 to \$600	17.5% to 20% of gross base premium (includes commission)
Broker fee only with sharing	Rarely used	
Broker fee only with no sharing	\$300 to \$600	N/A
Mid-scale strata schemes (i.e. insurance base premium generally between \$5,000 and \$40,000)		
Commission rebate/broker fee	7.5% to 10% of gross base premium (includes commission)	17.5% to 20% of gross base premium (includes commission)
Broker fee only with sharing	10% to 13% of net base premium (no commission)	10% to 17% of net base premium (no commission)
Broker fee only with no sharing		N/A
Large scale strata schemes (i.e. insurance base premium generally more than \$40,000)		
Commission rebate/broker fee	As for mid-scale but not usually justifiable	
Broker fee only with sharing	10% to 13% of net base premium (no commission) but reducing with scale (e.g. could be 8% or 6% for very large insurance premiums)	Typically equal to broker fee or 1.5 times broker fee
Broker fee only with no sharing		N/A

¹ **Small scale, mid-scale** and **large scale** are taken to be properties where the gross base premiums are in three ranges: below \$5000, \$5,000 to \$40,000 and above \$40,000. These boundaries are selected for convenience and have no inherent significance other than to describe an approximate scaling of market pricing.

² **Base premium** is the insurer's or underwriting agency's premium before stamp duty, underwriting fee, ESL (emergency services levy) and GST.

³ Broker receives commission from the underwriter and charges broker fee to the owners' corporation. Broker allocates much or all commission to the strata manager and retains the broker fee and any residual commission for its own account.

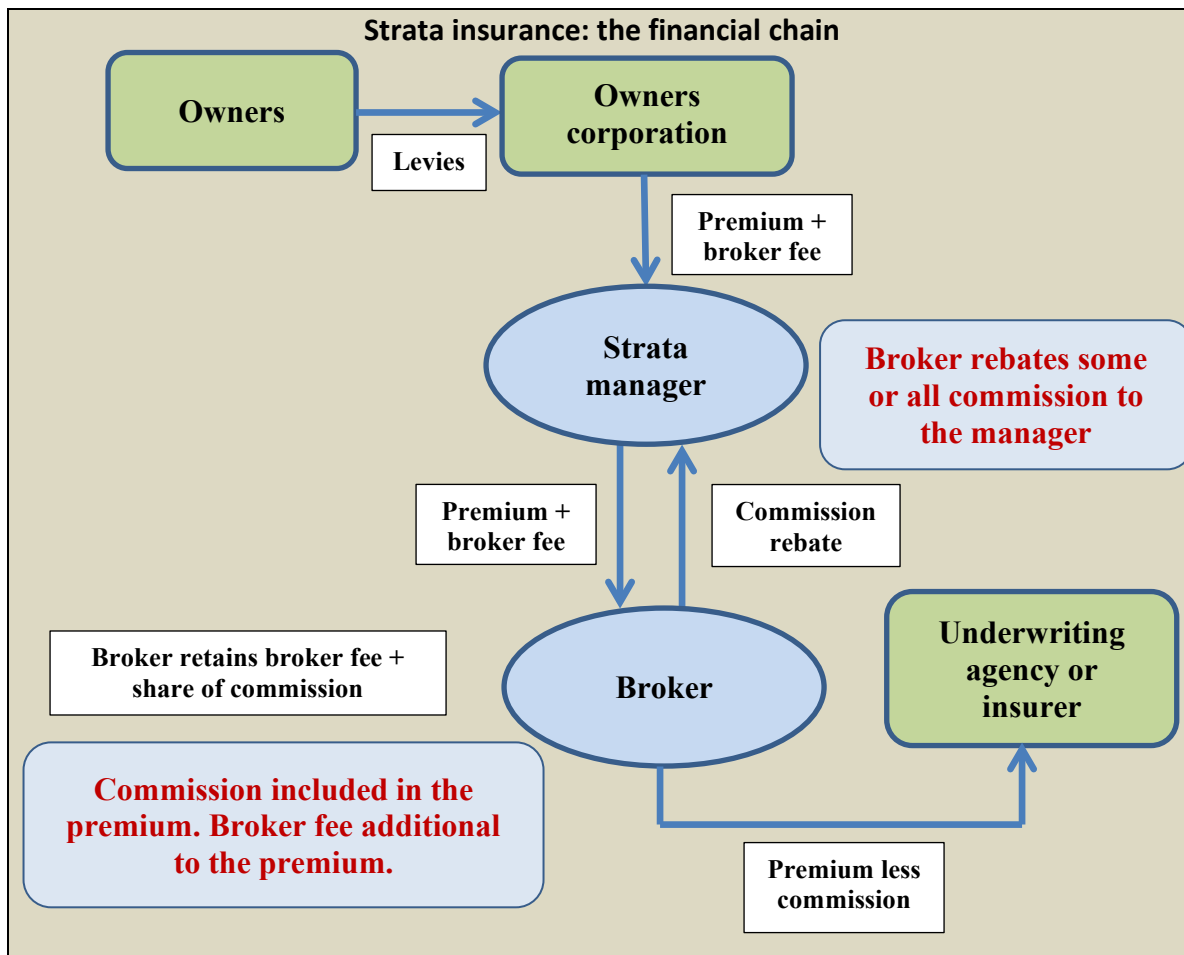
⁴ **Gross base premium:** base premium that includes commission.

⁵ **Net base premium:** base premium that has no commission included

Preface: How strata insurance works

The market structure for strata insurance is different from that for all other insurances, largely because of the multi-owner nature of strata properties and, in many cases, the participation of both a strata manager and a broker in the chain from insurer to client. Their joint presence, acting as they do on behalf of the client (the owners' corporation), has the effect of transforming the financial arrangements among the three parties.

These arrangements are convoluted. They are illustrated in the *financial chain* below. This chain assumes that a *commission* is payable. It is simpler in those cases where there is *no commission* and a *fee* only is charged by the broker (who may share the *fee* with the strata manager), or alternatively there is no broker and the strata manager receives and retains the *full commission*.



This diagram illustrates that –

- Where a *commission* is payable, in most cases the broker passes most or all of the *commission* to the strata manager and simultaneously charges a *broker fee* to the owners through the strata manager. In these cases, the *commission* is typically 20% of the base premium and the *broker fee* might be 5% or a higher amount.
- Where it is agreed that there is *no commission*, the broker obtains a premium from the underwriter that is net of commission and arranges a *broker fee* payable by the owners' corporation. This fee is either retained in full by the broker or, more commonly, shared with the strata manager, usually on a 50/50 or 40/60 basis.

Assessing intermediary charges in today's insurance market

Intermediary charges are the fees and/or commissions being charged by brokers and strata managers. This paper examines these charges where both a strata manager and a broker are appointed by the owners' corporation.

Definitions

Underwriter: the insurer or an underwriting agency acting on behalf of the insurer

Commission: component of an underwriter's base premium payable to the broker or, if no broker, to the strata manager - it is recorded on the underwriter's invoice.

Broker fee: fee charged by a broker directly to the owners' corporation – the underwriter is not a party to any such fee arrangements – it should be recorded as a separate item on the broker's invoice.

Base premium: the underwriter's premium before stamp duty, GST and, in NSW and Tasmania, ESL (emergency services levy).

Gross base premium: a base premium that includes commission.

Net base premium: a base premium that has no commission included.

Strata insurance commissions (if applicable) are paid by the underwriter to the broker or, in the absence of a broker, to the strata manager. In today's market, the commission is almost always 20% of the gross base premium.

Broker fees (if applicable) are paid by the owners' corporation to the broker.

Brokers can arrange net premiums with the underwriter for their owners' corporation clients (no commission), in which case the underwriter's net base premium will be 20% lower than the gross base premium that includes commission. In these situations, broker and strata manager will charge all fees for their services directly to the owners' corporation.

Three questions are explored in this paper –

- Are intermediary charges **fair** to the customer and in their **best interests**?
- Are intermediary charges being set **competitively**?
- Are there useful benchmarks that can be established for intermediary charges?

The answer to the third question is yes and the table on the next page comprises a summary of the benchmarks. Explanations for all three questions then follow.

Benchmarking Strata Insurance Broker Pricing

Summary with definitions and notes

There are three categories of intermediary pricing to consider for each of small scale, medium scale and largescale properties⁶. All pricing benchmarks are relative to **base premiums**⁷.

- Commission rebate/broker fee arrangements⁸ (gross base premium with commission)
- Fee only with sharing of the fee between strata manager and broker (no commission)
- Fee only for broker, no sharing with or allocation to the strata manager and no commission.

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Broker fee only with no sharing		N/A

⁶ **Small scale, mid-scale** and **large scale** are taken to be properties where the gross base premiums are in three ranges: below \$5000, \$5,000 to \$40,000 and above \$40,000. These boundaries are selected for convenience and have no inherent significance other than to describe an approximate scaling of market pricing.

⁷ **Base premium** is the insurer's or underwriting agency's premium before stamp duty, underwriting fee, ESL (emergency services levy) and GST.

⁸ Broker receives commission from the underwriter and charges broker fee to the owners' corporation. Broker allocates much or all commission to the strata manager and retains the broker fee and any residual commission for its own account.

Benchmarking Strata Insurance Broker Pricing

Notes

1. **Small scale, mid-scale and large scale** are taken to be properties where the gross base premiums are in three ranges: below \$5000, \$5,000 to \$40,000 and above \$40,000. These boundaries are selected for convenience and have no inherent significance other than to describe an approximate scaling of the market and market pricing because size does affect pricing by intermediaries, largely because it reflects their costs and has a bearing on fairness to the customer.
2. The benchmark rates are nominated as percentages of premium because that is a time-honoured method for brokers to receive remuneration and because part of its rationale is that the work of the broker is usually loosely related to the insurance risk and the insurance risk is reflected in the premium. There is no obligation or necessity, however, for intermediary charges to be determined as percentages of premium.
3. These benchmark prices relate to intermediary **prices** or **charges** not intermediary **costs**. They are my interpretation of prices that are fair and in the best interests of owners' corporations in an openly competitive market. They are referred to below as '*open market prices*' that are consumer-oriented or simply as prices that are *at 'market'*.
4. These benchmark prices are essentially inferences from piecing together the range of information at my disposal⁹ into a coherent whole.
5. There is no meaningful published information on the costs that strata managers or brokers incur in operating their businesses.
6. All of the information used in arriving at these benchmark prices has been obtained from a range of information collected from a range of brokers and strata managers across the three years 2022, 2023 and 2024. Some of that information is public, some of it is not. See also Appendix.

Context and nature of benchmarks – important qualification

Intermediary charges in individual cases can be fair and competitive outside the benchmark ranges above according to circumstance. For larger scale and smaller scale properties the typical percentages are different, as in the table. There are other reasons too. For example, there might be special or abnormal issues relating directly to one or more of the insurance placement, the property and its condition (maintenance, defects etc), effectiveness of the body corporate and the scope and quality of services supplied by each of the strata manager and broker.

⁹ This range of information is extensive. Some is public information but much of it is confidential to the brokers, strata managers and owner representatives who agreed to supply it to me. They did so during the course of my investigations undertaken in three phases during 2022 and 2023 and, in some cases, subsequently gave me information. For further explanation, see "Genesis, independence and sources of information" on page 14 and the appendix on page 15.

Fairness, best interests and competitiveness

Fairness can often be in the eye of the beholder but in general it is expected to reflect a reasonable price for services being rendered or goods being purchased.

The **best interests** duty requires strata managers and brokers to put the interests of owners' corporations ahead of their own interests.

To approach the questions of fairness and best interests, we can ask some questions:

- Are the fees and charges known to the owners?
 - in many cases, the answer is no
 - when the answer is no, the owners are in no position to take a view on the fairness of the charges
... hence the importance of transparent disclosure
 - when the answer is yes, have the owners been given sufficiently clear information in a manner that is timely and that would enable them to give their informed consent to the arrangements?
- Comparative charges: comparing remuneration of both SMs and brokers across the market -
 - is your broker charging at 'market' or above 'market'?
 - is your SM charging at 'market', above 'market' or below 'market'?and, if one or both are charging above 'market' –
 - are the OC and the SC aware of the position?
 - If yes, is the OC satisfied with the position?

These questions are essentially matters for the owners but, until there is transparent disclosure from brokers and SMs and more public market information, it is difficult in many cases for owners to answer the questions.

Competitiveness can be considered in the first instance by reference to market prices, on the assumption that the market is sufficiently competitive that buyers will take account of prices in their buying decisions. As obvious as this may seem, it currently constitutes a conundrum.

In the absence of any regulation of intermediary charges, it becomes a matter for each OC and its strata committee to challenge or negotiate with their SM and broker for a structure and levels of remuneration with which they are satisfied.

Discussion of this topic requires an understanding of 'market' rates for intermediary remuneration – see further below.

Open market and closed market pricing

Two forms of pricing within the strata insurance intermediary market can be distinguished. One is consumer-oriented and the other is intermediary-oriented. The *consumer-oriented approach* can be described as *open market pricing*. The *intermediary-oriented approach* can be described as *closed market pricing*.

Open market pricing is the remuneration in a competitive market where all parties, principally consumers and suppliers, are well informed and understanding of the financial arrangements.

Closed market pricing is the remuneration determined by strata manager and broker between themselves and then presented to the OC without genuine consultation. When they occur, such practices compound any conflicts of interest for both SM and broker.

The distinction between open market and closed market pricing applies to both brokers and strata managers.

Open market pricing is a necessary condition for fairness and best interests.

Closed market pricing does not meet fairness or best interests criteria.

The primary characteristics of closed market pricing arise through the absence of transparent disclosure and understanding by the OCs as clients. The participating brokers and strata managers often do not acknowledge the conflicts of interest involved, with the broking firms effectively treating the strata managers as their clients, instead of their actual clients who are the OCs.

The nature of the strata insurance market has led to closed market pricing by a range of strata managers and brokers. The practice is exemplified by high prices that have emerged through the temptations of closed market pricing without recognition by the strata managers and brokers involved of the extent of their conflicts of interest. In doing so, they are compromising the fiduciary duties they owe to their OC clients and may not be acting in their best interests.

Not surprisingly, there are variations in the market between these two practices. Many intermediaries practise open market pricing but some apply closed market pricing and some are in between.

Benchmarks for open market pricing

To arrive at a meaningful application of open market pricing requires some quantification. For that purpose, I have assessed benchmarks for what I believe represent open market pricing in today's environment, as explained in the following pages.

There are three categories of intermediary pricing to consider -

- A. Commission rebate/broker fee arrangements (gross base premium with commission)
- B. Fee only with sharing of the fee between strata manager and broker (no commission)
- C. Fee only for broker, no sharing with or allocation to the strata manager and no commission.

In each category we need to look at both the *prices or charges* to be made to the owners' corporation (commissions if any and broker fee) and the *allocation of the total charges* between strata manager and broker.

The benchmarks shown are intended to correspond to the mainstream market for mid-scale properties (for base premiums in the range of say \$5,000 to \$40,000). Variations are then explained for larger scale properties where rates applied are usually below these benchmarks while smaller scale properties often attract minimum fees which can show up as higher percentages than the mid-scale benchmarks.

Benchmarking Strata Insurance Broker Pricing

A. Commission rebate/broker fee arrangements (gross premiums) –

- *the dominant technique for small scale and mid-scale properties*

These arrangements are the most prominent practice in the industry and apply widely for mainstream properties in the small scale and mid-scale segments of the market. We can consider mid-scale properties to be those where gross base premiums are in the range of around \$5,000 to say \$40,000. Small scale properties are those where gross base premium is below \$5,000.

Mid-scale properties

Evidence collected during 2022 and 2024 indicates that –

- For strata managers, market competitive rates were commission rebates in 2022 of 15% to 17½% part of the broker's total commission of 20% of the gross base premium. By 2024, they had risen commonly to 17½% to 20%.
- For brokers, market competitive charges retained are 7½% to 10% of the gross base premium, comprising any residual commission not rebated to the strata manager (say 5% or 2½% or nil - nil applies when the full 20% commission is rebated to the strata manager) and a supplementary fee to bring the broker's remuneration up to within the 7½% to 10% range.

Together these charges typically yield total insurance-related charges to the owners' corporation of between 25% and 30% of the gross base premium, summarized here in Table 1.

Table 1: Mid-scale properties -

Rates relative to gross base premiums (including commission)

Item		Benchmarks		
		Lower level	Upper level	
Charges	Commission	%	%	... included in premium
	Broker fee	20	20	... charged separately by the broker
	Total	5	10	
Allocations	Strata manager	25	30	...share paid by broker to SM
	Broker fee	17½	20	... share retained by broker
	Total	7½	10	

We see that total benchmark charges are 25% to 30% of gross base premium, allocated 30% to 33% to the broker and 67% to 70% to the strata manager. The broker share is in the range 7½% to 10% of gross base premium.

Benchmarking Strata Insurance Broker Pricing

Small scale properties

For small scale properties, the commission rebate/broker fee system is usually employed but with one adjustment for the small scale. Commissions at 20% are generally as for mid-scale properties but a minimum broker fee is usually applied, typically somewhere between \$300 and \$600.

In these cases, the commission sharing or commission allocation to the strata manager will be the same as for mid-scale properties but, because of the smaller premiums and application of a minimum broker fee, the broker fee will appear as a larger percentage of the premium.

For example, if the minimum broker fee is \$500, we would see the following in cases where the full 20% commission is rebated to the strata manager –

Table 2: Small scale properties –
examples with minimum \$500 broker fee

Gross base premium	\$5,000		\$4,000		\$3,000		\$2,000	
	\$	%	\$	%	\$	%	\$	%
Commission	1,000	20	800	20	600	20	400	20
Broker fee	500	10	500	12.5	500	16.7	500	25
Total	1,500	30	1,300	32.5	1,100	36.7	900	45

We see here that the strata manager's share of revenue is simply the commission, being 20% of the gross base premium, and the broker fee is essentially an overhead charge by the broker. A minimum is entirely reasonable, noting that the role of the broker is to obtain information from the strata manager, arrange quotations, place the insurance in due course with the selected underwriter and deal with any claims or other queries that arise during the policy period.

Evidently some of these broker fees represent a high proportion of premium but, equally, they represent administrative and other costs that the broker must bear irrespective of the level of premium and insurance risk involved.

Large scale properties

For larger scale properties, where the base premiums typically exceed \$40,000 or so, a commission rebate/broker fee arrangement would usually generate excess charges to both strata manager and broker. Accordingly, the fees and charges would normally be ascertained as an agreed discount against the market rates that would apply for medium size properties, arrived at to recognise the otherwise large payments that arise from a premium based on the full percentage rate as applied to medium size properties. Most larger properties are insured on a net basis (no commission) – see below in section B.

B. Strata manager and broker rely on fees only (no commission) and share fees between them

Fee only arrangements rarely apply to small scale properties and they are uncommon at the lower end of the mid-scale range.

Large scale and upper mid-scale properties

Most fee only arrangements involve the sharing of broker fees between strata manager and broker. There are no commissions and net premiums apply. They are 80% of gross base premiums. Hence to match 25% or 30% of base premiums gross, the fee rates would be 31% or 37½% respectively of the net base premium.

Fee only arrangement frequently occur for the higher end of the mid-scale range and, for larger scale properties, they are the norm and commissions rarely apply.

There is not a full one to one correspondence between the rates applying with and without commissions because many of the net premium situations occurring in today's market relate to premiums at the upper end of the mid-scale range or are influenced by owners' corporations and/or market orthodoxy.

Market orthodoxy where there are no commissions is that the allocation between strata manager and broker is usually in the 50/50 to 60/40 range with the strata manager receiving the higher share.

The outcome is that the broker share tends to be consistent with the commission rebate/broker fee rates but the strata manager share is lower and reflects the 50/50 to 60/40 market orthodoxy.

We then arrive at benchmark rates of 10% to 13% (7½% to 10% on gross and rounded) for the broker and an additional 10% to 20% for the strata manager. In tabular form we have –

Table 3: Large scale properties -

Rates relative to net base premium (no commission) and is 80% of gross base premium

Item		Benchmarks		
		Lower level	Upper level	
Charges	Commission	0	0	... net premium, no commission
	Broker fee	20	33	... charged separately by the broker
	Total	20	33	
Allocations*	Strata manager	10	20	...share paid by broker to SM
	Broker	10	13	... share retained by broker
	Total	20	33	

* a 10/10 allocation is a 50/50 sharing between strata manager and broker

a 20/13 allocation is a 60/40 sharing between strata manager and broker

Benchmarking Strata Insurance Broker Pricing

We see in this table that total benchmark charges are 20% to 33% of net base premiums (corresponding to 16% to 25% of gross base premiums). For strata managers, the lower allocation at 10% is lower than when commissions are involved (17½% - see Table 1). They reflect the fact that most of the net premiums are for properties at the larger end of mid-scale or higher and many are negotiated when the owners' corporation via the strata manager has requested a net rate (no commissions).

It is notable that, when the base premiums are high, say more than \$100,000, broker fees of 20%, allocated 50/50 or 10%/10%, can often be seen as excessive and we then see lower levels relative to premium. The charges for the broker may then be lower than 10%, perhaps say 8% or less depending on the circumstances and the details including the level of services required.

Benchmarking Strata Insurance Broker Pricing

C. Fee only for broker, no sharing with or allocation to strata manager and no commission

In B above, the strata manager and broker share the total fees between them. If there is no sharing –

- the strata manager allocation in Table 3 above logically becomes a fee paid directly to the strata manager as part of or as a supplement to the manager's other fees, and
- the broker allocation becomes the broker fee that the broker invoices to the owners' corporation.

In other words, with no sharing of broker fee with the strata manager, the strata manager needs to include its insurance charges within its overall strata management fees. The full broker fee is then retained by the broker.

In these cases, the benchmark rates of 10% to 13% are the same as when broker fees are shared, as tabulated below in Table 4.

Table 4: Large scale properties

*Rates relative to net base premium (no commission, no sharing or payment to SM**

Item	Benchmarks		
	Lower level	Upper level	
	%	%	
Charges and allocation			... no commission, no SM payment
Broker fee	10	13	... charged separately by the broker
Total	10	13	... fully retained by the broker

* Net base premium is 80% of base premium gross

Hence in these cases we have benchmark broker fees between 10% and 13%, fully retained by the broker, with some lower levels for very high premiums, say above \$100,000, perhaps, 8% or lower. The strata manager is paid directly by the owners' corporation.

Genesis, independence and sources of information

This paper is a reference paper that builds on related aspects of three papers that I prepared on strata insurance in 2022 and 2023. These papers were an extensive work and were sponsored by the Steadfast Group. They are publicly available on my website www.johntrowbridge.com.au.

Attached as an appendix is a statement on the independence of this work, its purpose and its sources of information. A notable statement is that ***“all conclusions, findings and recommendations are my own and are independent of the SCA, NIBA and the Steadfast Group”***.

Disclaimer

This paper does not provide financial product or other advice. It is subject to copyright and may not be reproduced without my prior written consent.

To the maximum extent permitted by law, I am not liable for any loss or damage incurred by any person other than Steadfast Group Ltd as a result of use of or access to this report or its contents, including any error in any information, findings or conclusions contained herein.

END

Genesis, independence and sources of information

As stated on the previous page, this paper is a reference paper that builds on related aspects of three papers that I prepared on strata insurance in 2022 and 2023. These papers were an extensive work and were sponsored by the Steadfast Group. They are publicly available on my website www.johntrowbridge.com.au.

The foreword to each paper stated that -

“Strata insurance has become a very competitive business, especially among insurance brokers, underwriting agencies and strata managers. At the same time it has generated two vibrant debates in recent times –

- strata managers commonly receive rebates of broker commissions and simultaneously brokers charge fees to owners’ corporations: both of these practices are confusing and controversial*
- affordability and availability of strata insurance are problematic for some segments of the strata insurance industry.*

“Brief to independent adviser

“The Steadfast Group is conscious of these debates and wishes to see each of them explored in some depth and to contribute to solutions to them. To that end, Steadfast has engaged John Trowbridge to undertake an independent review of these issues. He has agreed to examine them, in consultation with interested stakeholders, with a view to proposing ways forward that can be taken on board by participants in the industry.

“The papers

“The views, findings and recommendations in the paper are those of the author and are independent of the Steadfast Group and its commercial interests.

“The overriding goal is to identify meaningful initiatives aimed at overcoming the structural issues that are of concern to both the Steadfast Group and many other participants in this market. “

These papers also stated that –

“Acknowledgments

“Cooperation and assistance from a range of representatives of the SM and broking fraternities as well as others have been invaluable. Of particular note is the active interest of both the SCA (Strata Communities Association) and NIBA (National Insurance Brokers Association) in supporting this project through cooperation, supplying information from members to facilitate this work and participating in workshops.

“Steadfast’s role has been crucial. The Group’s sponsorship is fundamental to the scope, access to information and quality of this project. That is because I have been able to obtain confidential information from numerous sources connected with Steadfast and also others in the wider insurance industry and strata management industry. Much of this information could not have been made available in any way other than with Steadfast’s active support and assistance.

“Independence

“While facilitating this level of access for me, Steadfast has also been fastidious in not just respecting but also supporting my independence throughout.

“All conclusions, findings and recommendations are my own and are independent of the SCA, NIBA and the Steadfast Group.”