

Improving outcomes for strata residents

November 2024

With Australia's population steadily rising and a significant shift toward high-density living, well-managed strata schemes and effective strata insurance is more important than ever.



Strata living is on the rise



Australian Government commits to >1.2M new homes before 2030



2021 Census estimates: >10% living in apartments



National Cabinet has agreed to promote medium-high density housing near transport



NSW Government forecast: 50% of Greater Sydney living in Strata buildings by 2040

National, state, and local regulatory and legislative frameworks governing strata buildings are complex, making it challenging for strata property owners to fully understand and navigate their rights and responsibilities.

To address these challenges, governments at all levels should take action to address any deficiencies in the existing arrangements and uplift standards across all aspects of strata management.

Strata schemes explained

A strata scheme is a building or group of buildings divided into 'lots' like apartments, townhouses, or villas. When owners buy a 'lot', they also share ownership and financial responsibility and liability for common property, such as shared gardens, roofs, driveways, and stairwells.

Strata fees are paid by an owners corporation to manage the ongoing costs of maintaining, repairing and insuring the shared property.

Lot owners



The owners corporation, made up of all the lot owners, has a legal responsibility to manage the building.

Strata Committee



Oversees strata operations and decisions, except when legislation requires an owners corporation resolution.

Strata Manager



Appointed by owners corporation to help manage the strata scheme and liaise with insurers, building managers, and suppliers.

How does strata insurance work?



Strata insurance protects the shared areas of a strata complex, such as shared hallways, gardens, gymnasium, car park, external walls and roofing, from damage or loss caused by insured events. Strata insurance is distinct from contents insurance and landlord insurance.

In Australia, it is mandatory for the owners corporation to insure the building for 100 per cent of its replacement value, such that a strata scheme can be reinstated following an insured event.

What does it typically cover?

- Damage to common areas shared by lot owners
- Costs for alternative/temporary accommodation
- Minimum level of liability cover in the event people are injured on common property

What is not covered?

- Damage caused by inherent defects or poor building maintenance

Fast facts

- Residential strata insurance is 32–36% more affordable than home building insurance
- The policyholder is the owners' corporation
- The lot owners are third-party beneficiaries to the policy

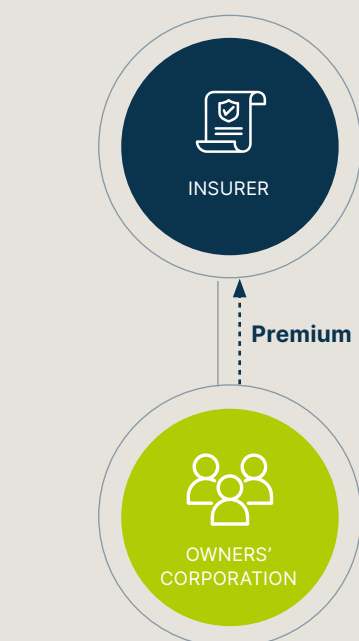
Purchasing strata insurance

Apartment owners benefit from sharing the cost of insurance across multiple lots in a strata complex. This cost sharing can make strata insurance more affordable than other home building insurance.

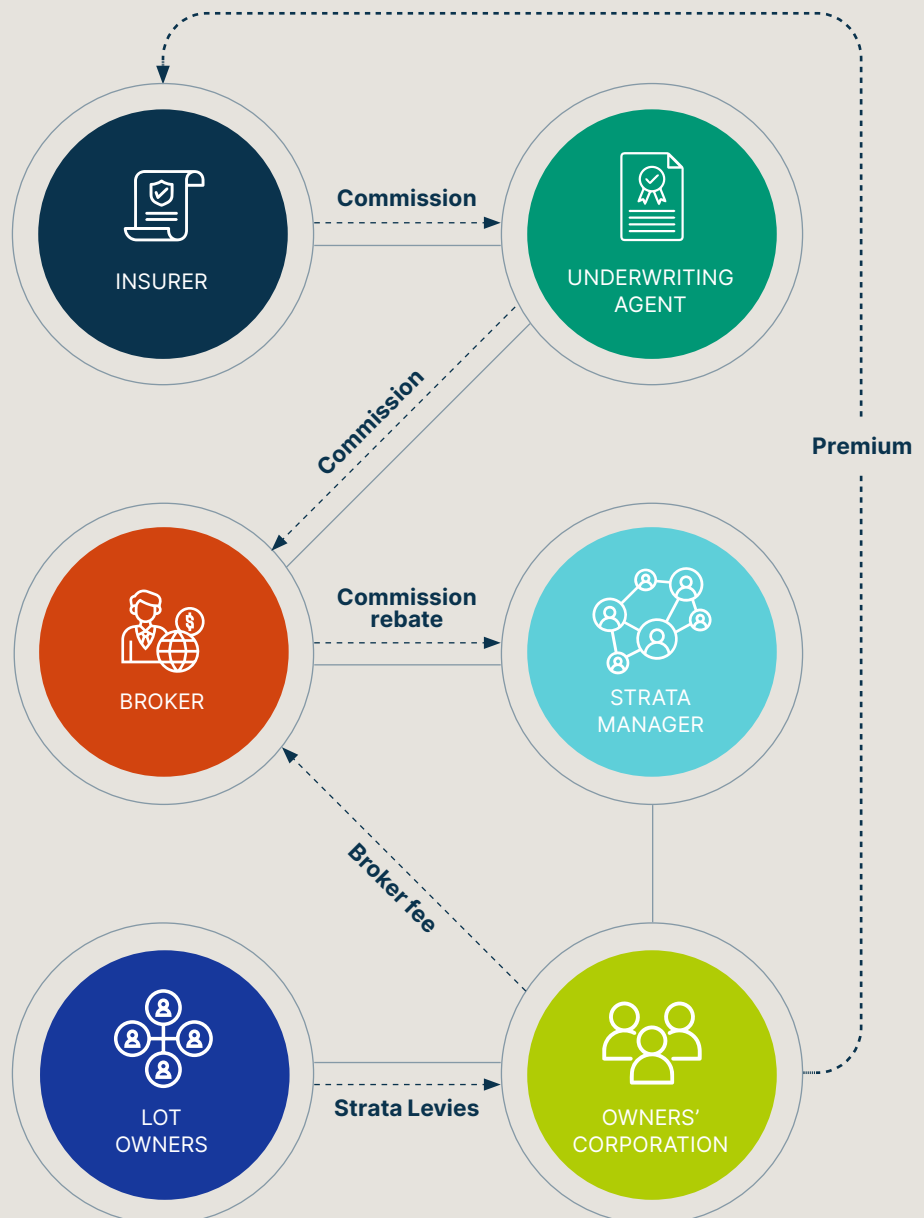
The purchasing and claims process for strata insurance is more complicated than direct insurance due to the multiple parties involved.

An owners corporation often seeks the support of a strata manager and/or insurance broker to help with the purchasing and administration of strata insurance.

Direct strata insurance purchase



Possible complexities in purchasing strata insurance



— Direct relationship - - - - Fee paid (\$)

What's driving the cost of strata insurance?

Like other lines of insurance there are some key factors putting pressure on strata insurance premiums, including:



Worsening extreme weather

The severity and frequency of extreme weather events continues to rise, adding to the cost of insurance.



Inflation

Inflation is pushing up building repair and rebuild costs.



Reinsurance

The cost of reinsurance – the insurance that insurers buy on the global market – is rising.

Factors creating further cost pressures for owners corporation

- **Poor land use planning** has led to some strata complexes being built in high-risk areas such as cyclone zones or floodplains, increasing the chance of damage and disaster.
- **Poor quality construction in new buildings** can raise long-term repair and maintenance costs.
- **Insufficient risk management** by strata bodies can lead to higher incidences of damages and accidents.
- **Ageing buildings** often require more maintenance and face higher risk of damage.
- **Inadequate building maintenance** can lead to unexpected and expensive repairs.
- **Additional taxes, fees and commissions** that can add to overall insurance cost.

Where cost for repairs or rebuild are not (fully) covered by insurance, these will need to be paid by an owners corporation's accumulated funds.



Supporting better outcomes in strata insurance

The insurance industry is backing government efforts to help strata complexes gain transparency, reduce risks and manage buildings more effectively, improving consumer outcomes. Key priorities relate to:



Fees and taxes

- **Improving disclosure and transparency** around any fees, commissions and supplier relationships.
- **Removal state taxes on insurance** will reduce the cost of insurance by up to 40 per cent in NSW and around ten per cent in other states.



Strata scheme management

- **Better education for strata managers** and owners corporations on the legislative requirements, administration of insurance and risk management guidelines.
- **Enforcement of mandatory maintenance and repair regimes** to ensure owners corporations and strata managers uphold their maintenance and repair responsibilities for the life of the property.



Construction

- **Embedding resilience in the national building code** to better protect future strata buildings from extreme weather risk.
- **National standard for occupancy and quality assurance reports** that seek to improve and report on the quality of strata complexes.
- **Strengthen long-term liability rules for builders and developers** in cases of serious defects, especially where negligence or wilful failure is involved.



Mitigation and resilience

- **Better land use planning** to prevent development in areas at high-risk of bushfire, flood, and cyclone.
- **Ongoing investment in resilience and mitigation projects** that reduce risk, protect communities and move people out of harm's way.

About this fact sheet

This fact sheet was developed by the Insurance Council of Australia in consultation with its members. Strata insurers have a deep understanding of the strata sector from years of insuring strata complexes and working closely with insurance underwriters, insurance brokers and strata management companies. This understanding extends to the underlying risks for consumers that buy into and live in strata complexes.

