Insurance Council of Australia

Improving consumer outcomes for strata communities

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Acknowledgement of country

The Insurance Council of Australia acknowledges the Traditional Owners of country throughout Australia and their continuing connection to land, culture, sea and community. We recognise the tens of thousands of years of continuous custodianship and placemaking by First Nations peoples and their proud role in our shared future. This report was produced on the lands of the Gadigal people of the Eora Nation and the Jagera and the Turrbal people of Meanjin. We pay our respects to Elders past, present and emerging.

About the Insurance Council of Australia

The Insurance Council of Australia is the representative body for the general insurance industry of Australia. Our members represent approximately 90 per cent of total premium income written by private sector general insurers, spanning both insurers and reinsurers. General insurance has a critical role in the economy, insulating individuals and businesses from the financial impact of loss or damage to their insured assets. Our work with our members, consumer groups and all levels of government serves to support consumers and communities when they need it most. We believe an insurable Australia is a resilient Australia – and it's our purpose to be the voice for a resilient Australia.

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Executive Summary

Australia is facing a housing shortfall and affordability challenge, with the Australian Government announcing a commitment to build 1.2 million new well-located homes over five years from 1 July 2024 onwards.[1] Further, the National Cabinet has agreed to promote medium- and high-density housing in well-located areas close to existing public transport.[2]

By one estimate, 50 per cent of greater Sydney's population will live in strata schemes by 2040, which suggests that we can continue to expect the number of apartment occupants to increase in the years to come.[3]

Many consumers benefit from the convenience of living in a strata complex, such as having an elected Strata Committee to help manage day-to-day financial, maintenance and insurance matters relating to common property and certain fixtures.

It is important to note that many owners corporations of strata complexes, a not-for-profit legal entity that is accountable for the management of the strata complex, consist of people with no relevant expertise or previous experience with strata managers, insurance brokers, underwriting agencies, building maintenance or insurance. This lack of knowledge or experience risks poor outcomes for consumers.

In Australia, there is a mandatory requirement across jurisdictions to purchase strata insurance at full replacement value. Strata insurance is expected to be able to cover the reinstatement of the insured strata complex, if the eligibility criteria are met. This requirement aims to ensure that consumers are protected from economic losses arising from insured damages.

Strata insurers that are members of the Insurance Council have developed 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, due to the complexities of and specialist nature of strata risk that need to be considered through the insurance underwriting and claims management process.

This policy paper discusses challenges observed in the strata sector that have caused, or have the potential to cause, consumer harm and impact the insurability of strata complexes in Australia. The proposed recommendations outlined in the policy paper seeks to improve consumer outcomes by de-risking strata complexes and addressing insurance affordability issues.

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[1] Prime Minister of Australia. 2023. Meeting of National Cabinet - Working together to deliver better housing outcomes. Date accessed: 20 November 2024

[2] ibid.

[3] New South Wales Government. Buying a strata property. Date accessed: 20 November 2024

Regulatory and Legislative Framework

There are different national, State and Territory, and Local government legislative frameworks in place which create different responsibilities and requirements in relation to building developments and strata scheme management, all of which would benefit from modernisation to improve regulatory certainty and enhance protections for consumers.

Given the increasing role units and apartment housing will have in building housing capacity in Australia, it is essential that action is taken by governments of all levels to address any deficiencies in existing legislation and uplift standards of transparency and delivery across the strata value chain.

Insurers are committed to leveraging their knowledge and experience to support improved consumer outcomes, transparency and disclosure in the strata sector. The general insurance industry supports government work on programs that will lead to greater awareness of the requirements to effectively manage a strata complex, and reduce risk to buildings, owners corporations, and consumers. This work requires a coordinated effort by all levels of government to commit to:

- uplifting education requirements for strata managers and educational opportunities for owners corporation members;
- implementing controls to ensure transparency of fees and service supplier relationships and prevent consumer detriment caused by hidden fees and conflicts of interest;
- appropriate land-use planning and release at local government level so that buildings are built out of harms way;
- uplifting the national building code to embed resilience as a core principle, as well as enhancing mitigation and resilience investment, to ensure strata buildings are resilient to current and future extreme weather conditions;
- improving design and construction compliance in each State and Territory; and
- enforcing appropriate maintenance regimes, which are agreed upon and delivered by the owners corporation and coordinated by strata managers.

Reforms should be underpinned by appropriate enforcement powers and tools, as well as consumer education campaigns to help improve understanding of consumer protections and benefits of risk mitigation.

Insurance Affordability

Like other lines of insurance, the key drivers of rising strata insurance premiums can be attributed to increasing frequency and severity of extreme weather events, hardening of the global reinsurance market due to significant losses over recent years and increasing asset costs.

Inflationary pressures on construction costs, poor land use planning, the effects of ageing housing stock and poor-quality design, construction and inadequate maintenance have also significantly increased the risk of insuring strata complexes, which is reflected in higher base premiums.

Further costs that can influence the overall price of strata insurance include state taxes and additional fees or commissions from intermediaries.

Apartment owners have the benefit of sharing the cost of insurance between multiple lots of a strata complex, which helps to improve the affordability of strata insurance compared to other home buildings insurance. An insurance premium for a single lot of a strata complex is, on average, 32-36 per cent lower than that of a detached home building.[4]

For harder to place risks, sourcing strata insurance may be challenging without expert advice. Strata insurance can be less affordable for strata complexes:

- situated in high-risk geographic locations (e.g. flood zones and certain coastlines that are prone to cyclone damage);
- with pre-existing structural issues (e.g. flammable cladding); and/or
- with deferred or unattended maintenance works.

Well-built and managed strata complexes can make for more resilient, safe and insurable homes for Australians in the long-term. It is important that work commences to de-risk the strata sector now to help lower the insurance claims costs associated with building repairs and rebuilds, and help stabilise the cost of insurance over time.

[4] Based on data collected from the Insurance Council of Australia's members to compare insurance premiums for strata complexes and detached homes on the Eastern coastline, with the same construction material, year built, sum insured and excess.

Recommendations

	Recommendation
Strata Scheme Management	*The strata community needs to be empowered to make more effective decisions to ensure strata properties remain safe to inhabit, insurable and financially sustainable.* 1. Strata management companies and peak bodies should actively educate strata managers, Strata Committees and owners corporations regarding roles, responsibilities, legislative requirements, administration of insurance and risk management guidelines to support de-risking of strata complexes. 2. The Insurance Council to develop consumer educational materials to improve lot owners' understanding of insurance risk mitigation and insurance cost drivers. 3. Governments across the country should consider legislative reforms relating to licensing, qualifications and conduct of strata managers, if not already introduced, to support greater standardisation of strata management practices and capabilities across jurisdictions.
Transparency and Disclosure of Fees and Commissions	*Full transparency of fees and commissions paid through the purchase of insurance and the flexibility for owners corporation to determine the number of insurance quotations to source can give owners corporation the opportunity to make informed choices that can lower the overall cost of insurance.* 4. New South Wales Government should conduct a post-implementation review of the impacts of Section 166 of the Strata Schemes Management Act 2015 (NSW), which requires a strata manager to seek at least three insurance quotations from different providers for the owners corporation, to assess whether it remains fit for its intended purpose. 5. The National Insurance Brokers Association should continue their efforts in addressing remuneration and fee disclosures by ensuring standardised granular disclosure of insurance premiums, duties, taxes, remuneration paid to brokers and strata managers and other fees, and adopting informed consent obligations coming into effect July 2025.
Construction	*Improvements to building compliance and consumer protections can reduce the severity and frequency of building defects and damages in the long run for consumers in strata complexes, which will improve the insurability of strata properties across Australia.* 6. Governments across the country should simplify and modernise existing State legislative frameworks that regulate the building design and construction industry. 7. Governments across the country should work towards implementing a national standard for occupancy certification to improve consumer confidence in the quality of strata complexes, similar to those introduced by the New South Wales Government. 8. Governments across the country should consider introducing additional audit checkpoints upon completion of critical building safety features to ensure these are up to standard prior to issuance of occupancy certificates, with quality assurance reports provided to insurers prior to purchase of strata insurance.

	Recommendation
Construction (cont'd)	9. Governments across the country should address existing limitations regarding ongoing/longer term liability of serious defects for builders and developers, where negligence or wilful failure has been identified, with particular focus on expanding existing developer's liability to impose personal liability on directors to combat consumer harm arising from phoenixing activity. 10. Governments across the country should explore other laws and initiatives, beyond those recommended in the 2018 *Building Confidence Report*, to improve consumer confidence in the safety and quality of building materials and reliability of building professionals.
Risk Mitigation	*Strengthening the enforcement of building maintenance, improving the resilience of strata properties to extreme weather events and investments into mitigation measures can help protect communities and address insurance affordability concerns.* 11. Governments across the country should strengthen regulation and enforcement in relation to the statutory duty to maintain and repair buildings beyond the building warranty period through to the useful life of the property. 12. The National Construction Code and associated standards need to be updated and amended to embed resilience and to require more stringent construction requirements to ensure buildings are built to withstand more extreme weather events in the future. 13. The Australian Government should continue to partner with the insurance sector to target investment in resilience and mitigation measures that reduce risk and protect communities, such as levees and floodways. 14. The Australian Government and insurance industry should continue to collaborate via initiatives such as the Hazard Insurance Partnership to better understand future climate risk to support enhanced policy making and investment decisions, including hard infrastructure such as levees and floodways. 15. The Australian Government should work with state counterparts to establish a permanent relocation and buy-back scheme, funding local governments to purchase lots in a strata complex from those in the most extreme weather risk exposed properties. These programs should initially be targeted to low socio-economic areas to assist people most at need move out of harm's way. 16. Governments across the country should use planning powers to limit new development in areas prone to high risk from extreme weather events, such as flooding, bushfires, cyclones, and coastal hazards. The Insurance and banking sectors should be engaged early in the planning process, and consideration should be given to mandatory climate change risk assessments to identify these vulnerable areas. When developing regional plans, State and Territory Governments should prioritize areas with zero to low extreme weather risk for new development, taking into account the probability of hazards occurring and their potential impact on property and life.
Other Costs to Owners Corporation	*Abolishing state taxes can reduce the overall cost of insurance by up to 40 per cent.* 17. Governments across the country should consider the replacement of insurance taxes such as stamp duties and emergency services levies, with alternative revenue sources that are more equitable and efficient.

Glossary

Term	Description
Authorised representative	An authorised representative of an Australian Financial Services licensee means a person authorised in accordance with section 916A or 916B of the Corporations Act to provide a financial service or financial services on behalf of the licensee.
Building sum insured	The maximum amount an insurer will pay to rebuild a property in the event of a total loss.
Building surveyor	A professional that provides independent oversight of buildings and building work during the construction process and upon completion of construction to ensure that buildings are safe for use.
Common property	The part of a building or land that is not part of a specific lot, and is jointly owned by all the owners of the building.
Decennial liability insurance	An insurance product in Australia that enables owners corporations to have a serious defect fixed up to ten years after an apartment building is first occupied.
Distributor	Regulated persons, as defined under section 994A(1) of the Corporations Act, who engage in retail product distribution conduct.
Electric vehicle	Cars or other vehicles with motors that are powered by a lithium-ion battery.
Emergency services levy	A tax charged by some State governments to fund the emergency services organisation and is collected through insurance premium payments.
Excess	Also known as a deductible. It is the amount of money an insurance policyholder pays towards an insurance claim before your insurer pays the res
Extreme weather event	Otherwise known as a natural peril, are occurrences of unusually severe weather or climate conditions that can cause devastating impacts on communities. These may include storms, floods, cyclones, hailstorm and bushfires.
Illegal Phoenixing	A business practice where a company is liquidated to avoid paying its debts, and then a new company is started to continue the same business, without paying true or market value.
Insurance broker	An adviser that provides specialist insurance product expertise and risk advice to clients. A broker’s service often includes helping a client secure insurance cover and managing the insurance claims process.
Insurance claim	A formal request usually made by the policyholder to an insurance company for a payment based on the terms of the insurance policy.
Insured event	An event that has caused unexpected damage or loss that is covered by the insurance policy terms and conditions.
Insurer	Otherwise known as an insurance company, provides insurance to someone or something to cover unexpected damage or loss to an asset(s) or individual(s).
Land-use planning	The process of regulating how land is used to promote social and environmental goals, and to use resources efficiently.

Term	Description
Levee	A raised man-made structure built to contain, control or divert the flow of water in order to provide protection to towns and/or agricultural land from flooding
Lot	A portion of a building or group of buildings that is owned by an individual or group of individuals.
Lot owner	An individual that has purchased the rights to a lot.
National Construction Code	Australia's primary set of technical design and construction provisions for buildings.
Net loss ratio	A metric used in the insurance industry to measure the performance of an insurance company's business and measures how much in claims is paid out by an insurer relative to the premiums received.
Occupancy certificate	A document that confirms the completion of a building and allows a building to be used or occupied.
Owners corporation	Also known as body corporate, strata company or strata corporation, is made up of all the lot owners of a strata scheme. It is a not-for-profit legal entity created by statue to manage a strata complex.
Personal mobility devices	These include e-scooters, e-skateboards and similar devices that are powered by a lithium-ion battery.
Policyholder	A person or group that has made an agreement with an insurance company that it will provide insurance against particular risks.
Principal certifiers	Usually a registered building surveyor, local council or registered body corporate (certification company) that carries out mandatory building inspections during the construction period and issues the development certificate when all requirements are met.
Private certification	A process involving building inspections undertaken by private building surveyors to ensure building regulations and standards are followed before a building is approved for occupancy or use.
Reinsurer	A company that provides insurance to insurance companies to help insurers manage its insured risks and associated impacts of insurance claims losses.
Replacement value	Also known as replacement cost, is the dollar amount that is determined with the support of an independent valuation, which should reflect the cost to reinstate a building after an event of total loss.
Resilience investment	Proactive initiatives that reduce extreme weather risks and improve adaptation to climate change for communities and economies.
Retail Client	As defined in the Corporations Act, as a customer that does not meet the requirements to be considered a wholesale client. The Corporations Act imposes additional obligations on Australian Financial Services licensees when dealing with retail clients, including prescriptive disclosure, dispute resolution, product design and conduct requirements.
Return on Investment	A performance measure used to evaluate the efficiency of an investment.

Term	Description
Risk mitigation	A strategy developed or initiative undertaken to prepare for and lessen the effects of a threat, damage or loss.
Stamp duty	A tax that State and Territory governments charge for certain documents and transactions, including the purchase of insurance.
Strata Committee	Otherwise known as an Executive committee. A subset of lot owners elected by the owners' corporation to govern and manage strata matters.
Strata levy	Otherwise known as strata fees, are regular fees collected from lot owners of a owners corporation to fund the management of a strata scheme. For example, strata fees will fund the ongoing costs of maintenance, repair and insurance.
Strata manager	Otherwise known as a strata agent or managing agent, is appointed by an owners corporation to manage the day-to-day facilities operations of the strata complex, including property maintenance and keeping financial accounts.
Underwriting agency	Acts on behalf of insurer and may have own Australian Financial Services Licence or operate as an authorised representative of an insurer to manage all or part of the strata insurance business of an insurer. For example, an underwriting agency typically assesses the risks, accepts business and settles claims on behalf of the insurer and is remunerated by insurers for the agency and distribution services they provide.

Overview of Strata Scheme Management

A 'strata complex', also known as a 'strata scheme', contains individual lots or units and common property that is shared by all lot owners.[5] Examples include multi-level apartment complexes, townhouses and detached houses on subdivided blocks.[6]

The 'owners corporation' of a strata complex is a not-for-profit unlimited liability legal entity. When consumers buy into a strata complex they purchase the rights to a bundle of lot or unit entitlements, which represents the owners' share of the common property, voting rights and costs.[7] The lot owners, as members of the owners corporation assume a joint and several responsibility for its liabilities, which is not limited to what the investor or home buyer has invested. For example, if one lot owner cannot fund their share of the outgoings of a strata complex due to bankruptcy, the rest of the lot owners will have to fund the outstanding share of liabilities. If lot owners cannot collectively fund the costs of a strata complex, this can lead to owners corporation bankruptcy.

As well as the owners corporation, there is often a 'Strata Committee' or 'Executive Committee', a subset of lot owners elected by the owners corporation. The Strata Committee has responsibility to govern and manage strata issues on behalf of the owners corporation. This includes making financial decisions on behalf of the owners corporation.

Importantly, it is a legal requirement for an owners corporation to:

- maintain and repair the strata complex as part of its ongoing statutory duty;
- insure the strata complex to full replacement value; and
- use insurance funds, received from strata insurers upon acceptance of a claim, for the reinstatement of a property.

Every strata scheme has funds set up to hold strata levies paid by owners, which are used to cover administration costs, services, insurance and maintenance and repairs. Members of an owners corporation may have different priorities and interests associated with the financial or building maintenance and repairs. Misaligned interests and priorities can create decision-making challenges, such as agreeing on a motion that may require a special levy to be struck or the use of accumulated maintenance funds, leading to deferred decisions.

Deferred or lack of maintenance, including relevant upgrade of amenities, that would otherwise have reduced the risk of damage to the strata property and frequency of insurance claims can put upward pressure on insurance premiums or insurability in the long run. Deferred repairs can also exacerbate the severity of damage, which increases the cost to repair borne by owners corporation, if the damage is not covered by insurance.

Given members of Strata Committees are comprised of lot owners elected on a voluntary basis, they may have little to no knowledge or education of how a strata complex should be managed. Further,

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[5] Nicole Johnston (lead author) with Adrian Lee, Sagarika Mishra, Karen Powell, Mark Bowler-Smith and Ambika Zutshi. 2021. *Deakin University.* A data-driven holistic understanding of strata insurance in Australian and New Zealand. Page 10.

[6] Ibid.

[7] Queensland Government. 2018. About lot entitlements. Date accessed: 20 November 2024

there is no legislative requirement regarding the level of education or skill needed of owners corporation or Strata Committee members, which may lead to them appointing a strata manager.

A strata manager is typically delegated a range of functions to assist the Strata Committee in managing and administering the building. These include arranging placing insurance, property maintenance and keeping financial accounts.[8]

Strata managers can enrol in industry-accredited programs and access further resources through professional bodies to support ongoing professional development. However, varied State and Territory legislation and enforcement measures relating to minimum education, licensing requirements, obligations and codes of conduct, potentially hinder effective oversight of strata managers. Importantly, the capabilities of a strata manager could have flow-on impacts to the effectiveness of strata scheme management, including decision-making and risk management relating to a strata complex. Sound strata scheme management ensures the strata complex remains insurable and safe to inhabit in the long run.

[8] Strata Community Association NSW. 2021. Strata Managers role. Date accessed: 20 November 2024

Overview of Strata Insurance

Strata insurance is designed to provide the owners corporation with protection from unexpected damage to common areas of strata complexes caused by insured perils. It is distinct from contents insurance or residential landlord insurance (these are purchased by the individual lot owner to protect against damages within the specific lot).

In Australia, strata insurance is mandatory for residential, mixed-use and commercial strata properties, pursuant to State-based strata laws. The requirement for an owners corporation to insure strata properties at 100 per cent replacement value of a building, assists in minimising the risk of underinsurance and helps lot owners and residents get back on their feet when their strata building is damaged after an insured event.

Strata insurance typically covers accidental damage to fixed structures of the strata complex, including common areas shared by lot owners (e.g. shared hallways, external walls, roofing, car park and gymnasium) and costs for alternative accommodation if the strata complex becomes uninhabitable due to insured perils, subject to the approval of the insurer. Damages relating to buildings with inherent defects or suffering from lack of maintenance are typically excluded from coverage – particularly if they are known issues. Strata insurance also typically includes a minimum level of liability cover in the event people are injured on common property.

Complexities in the regulatory and legislative framework

The regulatory and legislative framework heavily influences how strata insurance is designed, procured, distributed and administered, which can make it difficult for consumers to fully understand the legal responsibilities of each party involved and the consumer protections available.

For example, insurers, underwriting agencies, brokers and strata managers need to navigate the intersectionality of:

- State and Territory strata laws that impose strata insurance requirements, such as coverage at 100 per cent of the replacement cost;
- The requirement in New South Wales (NSW) only, for three insurance quotations to be sought by the strata manager for the owners corporations' consideration;[9]
- The *Corporations Act 2001 (Cth)* (Corporations Act) which imposes various obligations on insurers, underwriting agencies, insurance brokers and strata managers (as Authorised Representatives or Distributors) regarding the distribution of a general insurance product, which is regulated by the Australian Securities and Investments Commission. Obligations may vary, subject to whether general insurance is being provided to a Retail Client or Wholesale Client;[10]
- Section 5F of the Corporations Act, which permits a law of a State or Territory to declare that the Corporations Act does not apply to what State or Territory decides is an 'excluded matter', noting that many State-level governments have applied this exemption to strata laws. For

[9] *Strata Schemes Management Act 2015 (NSW)*, s166.
[10] *Corporations Act 2001 (Cth)*, Chapter 7.

example, in NSW, an owners corporation is declared to be an excluded matter for the purposes of section 5F of the Corporations Act in relation to the whole of the Corporations legislation;[11]

- Australian Financial Services (AFS) Licensee obligations pursuant to the Corporations Act, if insurers, underwriting agencies, brokers and strata managers hold an AFS licence. These obligations relate to prescriptive disclosure, training, provision of financial services, managing conflicts of interest, dispute resolution, product design and conduct requirements.;[12] and
- Obligations that insurers need to comply with, if they are regulated by the Australian Prudential Regulation Authority, to ensure the insurance industry remains financially and operationally resilient to meet consumers' needs.[13]

The Intermediated Nature of Strata Insurance

Insurance needs to appropriately address the risks of a strata complex. The varying nature of strata complexes including use of the property (residential, commercial or mixed-use) and nature of design and construction can be complex and pose different risks to an owners corporation.

Strata insurance can be purchased directly from an insurer like other insurance products such as car or home insurance. An owners corporation often seeks the support of a strata manager or insurance broker to provide specialist product expertise, risk advice and undertake the insurance purchasing process due to the complexities involved and the more specialist nature of strata insurance. Given several parties may be involved, the purchasing and claims process for strata insurance is also often more complicated than direct insurance (Figure 1).

Parties to strata insurance purchases may include:

- Strata manager(s), who are appointed by an owners corporation to manage the day-to-day facilities operations of the strata complex, including arranging the owners corporation's strata insurance;
- Insurance broker(s), who can be engaged to provide insurance advice, procure the strata policy and manage insurance claims in exchange for a fee, on behalf of a strata manager or Executive Committee;
- Underwriting agent(s), who acts on behalf of an insurer and may have their own Australian Financial Services licence or operate as an appointed representative of an insurer, to manage all or part of the insurance business of an insurer. Underwriting agents typically assess the risks, accept business and settle claims on behalf of the insurer and are remunerated by insurers for the agency and distribution services they provide; and/or
- Insurers, who are contractually obliged to cover the cost of eligible claims under the insurance policy and maintain accountability and oversight of activities undertaken by underwriting agents.

It is worth noting that not all owners corporations appoint strata managers or require broker services. In such instances, the Executive Committee can engage directly with a broker, underwriting agency or insurer to procure a strata insurance policy.

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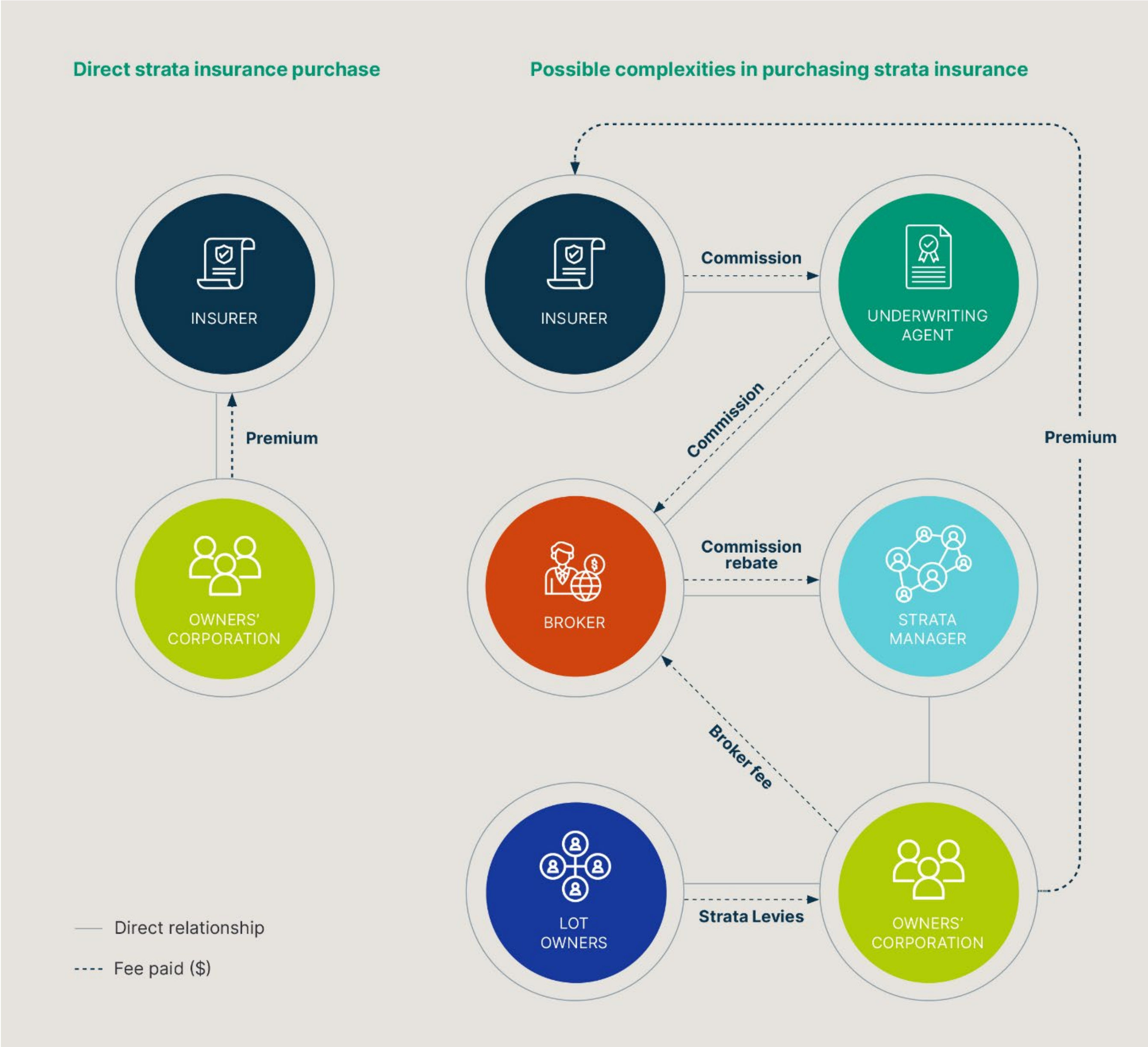
[11] *Corporations Act 2001 (Cth)*, s5F. *Strata Schemes Management Act 2015 (NSW)*, s8.

[12] Australian Securities and Investments Commission. AFS licensee obligations. Date accessed: 20 November 2024.

[13] Australian Prudential Regulation Authority. About APRA. Date accessed: 20 November 2024.

Figure 1: Illustration of strata insurance distribution



Please note that the remuneration agreements between the insurer, underwriting agent, broker and strata manager may vary. The diagram is intended to illustrate the possible payments made between different parties and does not suggest that all commission and fees are made separate to the premium paid by the owners corporation.

Remuneration of Intermediaries

It is important to understand the nature of, and types of remuneration that are paid through the purchase of a strata insurance policy.

In Australia, strata insurance is mostly distributed through specialist underwriting agents, on behalf of insurers. Underwriting agents are remunerated for the services they provide to insurers (which would otherwise be undertaken by the insurer) and may include underwriting and administering insurance policies, claims handling, dispute resolution and managing other operational and administrative matters. This typically forms part of a contractual commercial agreement between the insurer and underwriting agent.

Insurers may distribute policies directly to customers, or strata managers or via brokers and/or underwriting agents. As discussed above, an insurance broker plays an important role where a strata manager or Strata Committee does not have the expertise or capacity to be able to arrange strata insurance, on behalf of the owners corporation. Insurance brokers can help explain the detail of an insurance policy and work out what level of cover is needed, as well as assist in the claims process. The commission is paid for a broker's role in distributing a general insurance product, providing risk advice and claims services to the client and is disclosed on the insurance quote or invoice issued by the insurer or underwriting agent.

Alternatively, a strata manager may receive commission from the insurer or underwriting agent if the strata manager has an AFS licence or is operating as an Authorised Representative or Distributor. In this case, the strata manager sources insurance quotations and administers the insurance policy on behalf of the owners corporation and does not involve a broker.[14]

For larger strata complexes, most intermediaries charge a fee for service to the owners corporation with premiums being commission free. Commissions, charged as a percentage of the insurance premium, are typically paid by insurers to intermediaries for smaller schemes.

The Insurance Council acknowledges the *Independent Review of Strata Insurance Practices* by John Trowbridge, which highlighted instances where:

- The strata manager and broker agree on a share of the brokers commission to be rebated to the strata manager; and
- The broker and strata manager agree on a fee for the broker in additional to the commission.[15]

Insurers are not a party to the remuneration arrangements made between a strata manager and broker and is unlikely to have visibility of these arrangements. Findings from the *Independent Review of Strata Insurance Practices* also suggested that Strata Committees and owners corporations may have little or no involvement in the agreements between the broker and strata manager, which can raise concerns over disclosure, transparency or conflicts of interest.[16]

The Australian Competition and Consumer Commission (ACCC) 2020 *Northern Australia Insurance Inquiry* and the Australian Government's 2022 *Quality of Advice Review* also reviewed remuneration arrangements involved in the placement of strata insurance cover following consideration of potential conflict of interest issues by the Financial Services Royal Commission in 2018.[17]

[14] John Trowbridge. 2022. Independent Review of Strata Insurance Practices – Phase 1. Page 17.

[15] John Trowbridge. 2023. Independent Review of Strata Insurance Practices – Phase 3. Page 5.

[16] John Trowbridge. 2022. Independent Review of Strata Insurance Practices – Phase 1. Page 38.

[17] Australian Competition and Consumer Commission. 2020. Northern Australia Insurance Inquiry - Final Report - 30 November 2020. Page 479; Australian Government. December 2022. Quality of Advice Review - Final Report. Pages 170-171.

In their 2020 report, the ACCC recommended a ban on conflicted remuneration for insurance brokers.[18] They further recommended that strata managers be remunerated by body corporate only.

The 2022 *Quality of Advice Review* concluded that insurance broker commissions should not be prohibited.[19] Subsequently, a new requirement was introduced for insurance intermediaries to obtain the prior consent of the Retail Client before receiving commissions, which comes into effect in July 2025.[20]

The *Quality of Advice Review* recognised the value of intermediaries in increasing competition and choice for consumers and providing insurance advice to consumers in regional and remote areas, and opportunities to meet in-person, where insurers cannot.[21] Without intermediaries, it is more likely that consumers will purchase insurance directly from the major insurers.[22] The report also highlighted a risk that consumers who rely on brokers may not be willing or be able to pay a fee for broker advice should commissions be banned.[23]

It is important to note that any recalibrated remuneration model could risk unintended consequences for end-consumers. A fee model could result in, for example:

- Smaller strata schemes paying materially more for the insurance broker's services. A flat fee structure is expected to be more costly to an owners corporation, compared to broker commissions, which are currently based on a proportion of the premium;
- It no longer being possible for commission rebates to be received by strata managers. This could lead to strata managers increasing their fees to owners corporations to cover the shortfall in revenue; and/or
- Smaller strata schemes being unable to obtain broker services if they are unable or unwilling to pay the fees required to do so.

[18] Australian Competition and Consumer Commission (ACCC). 2020. Northern Australia Insurance Inquiry - Final Report - 30 November 2020. Page 483.

[19] Australian Government. December 2022. Quality of Advice Review - Final Report. Pages 170-171.

[20] See *Treasury Laws Amendment (Delivering Better Financial Outcomes and Other Measures) Act 2024*, Schedule 1, Part 5 and the *Corporations Act,* Section 963BB.

[21] Australian Government. December 2022. Quality of Advice Review - Final Report. Page 170.

[22] Ibid. Page 170.

[23] Ibid. Page 171.

How Are Strata Insurance Premiums Determined?

The collective purchasing of strata insurance for a strata complex (versus say each individual lot owner purchasing insurance) and the nature of the coverage would generally maintain insurance premiums at an economical rate. Insurers must continually adjust premium prices to reflect the current value of an asset as its replacement cost may be higher than the asset's original price. To price the risk of the strata complex, the insurer would need to consider the age, condition, geographic location, claims history of the strata complex, level of excess paid, maintenance regime and risk mitigation strategies in place, and other factors to determine the appropriate level of premium.

Comparisons to other strata complexes should be done with caution as the differences in size, age and pre-existing structural issues of the premises, geographic location and other factors will all have an impact on the respective premium costs.

Is The Product Design Still Appropriate?

In Australia, strata insurance is offered and priced based on the declared Building Sum Insured (BSI), which should reflect the full replacement value of a strata complex, normally arrived at with the support of an independent valuation by a professional valuer or quantity surveyor that is engaged from time to time. Currently, there are no products on the Australian market that offer a BSI lower than the full replacement value as this would not meet legislative requirements.

Strata insurance priced at full replacement value helps owners corporations afford the rebuild cost of their strata complex in the worst-case scenario, should the claim eligibility criteria be met. Further, it is a requirement that the insured uses the funds received from the strata insurer upon acceptance of an insurance claim to reinstate the strata complex. The Insurance Council continues to support this policy position, which seeks to minimise underinsurance and will remain relevant as medium-to-high-density strata complexes grow in demand and supply, to ensure lot owners are adequately protected from economic loss.

There are strata insurance products in the United States, often referred to as a master condo or association policies, that offer 'extended replacement cost' or 'guaranteed replacement cost' coverage. The former will extend the building coverage beyond the limit by X per cent while the latter will require an insurer to pay the owners corporation however much is needed to replace the property in the event of a claim, regardless of cost.[24] These product features can help minimise the risk of underinsurance but at additional cost.

Pricing for uncertainty is costly and complicated, and more so if there is a high risk of natural perils in Australia, including flood, cyclone, bushfire, earthquake, hail and storm. A significant amount of data is required to calculate the risk of claims for a single natural peril and may rely on a combination of internal and external models.[25] An 'extended replacement cost' or 'guaranteed replacement cost' product will likely incur higher costs for insurers, in order to price the risk and fulfil claims. The Insurance Council considers that the 'extended replacement cost' and 'guaranteed replacement cost' products are unlikely to be more affordable and sustainable than the current strata insurance product in Australia and would not support the adoption of this product.

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[24] Guarino Insurance. Master Condo Insurance. Date accessed: 20 November 2024; Mark Gilbert. 2021. Gilbert Insurance. Do You Have the Right Replacement Cost Coverage? Date accessed: 20 November 2024; Robert J. Prahl. 2011. Adjusters International. Coinsurance/Insurance to Value Revisited. Pages 8 and 9. Date accessed: 20 November 2024

[25] Australian Competition and Consumer Commission. 2023. Insurance Monitoring Report – December 2023. Page 46 and 47

Insurance Affordability

Insurance affordability concerns are acute for strata complexes situated in high-risk geographic locations (e.g. flood zones and certain coastlines that are prone to cyclone damages), with pre-existing structural issues (e.g. flammable cladding) and/or unaddressed or deferred maintenance works.

Insurers are being affected by the hardening of the global reinsurance market due to significant losses over recent years. As the insurers of insurance companies, reinsurers are generally able to smooth the losses of insurers through diversifying the risks of a global insurance market. However, reinsurers are needing to adjust pricing in response to historic under-pricing, geopolitical uncertainty, increasingly frequent and severe extreme weather events (and associated losses) as well as high inflation and associated claims costs across the globe.[26]

Insurance premiums generally reflect the expected cost and frequency of claims. There is generally a lag between a new risk being understood and that risk being effectively priced, so insurers and reinsurers need to recalibrate their data models to price in more frequent losses.

Impacts of The Changing Climate

Extreme weather events are costing Australian homeowners approximately $4 billion a year, highlighting the need for greater action to future proof Australia's resilience in the face of worsening bushfires, cyclones and floods.[27] This figure is expected to more than double to around $8.7 billion per year by 2050, assuming climate change will continue to drive an expansion of high-hazard zones, and development will continue to increase in high-risk areas, such as floodplains.[28]

Insurance premium rates for strata insurance has been steadily trending upwards in recent years (Figure 2). This is due to a range of factors including several extreme weather events in Australia, such as the 2019-2020 bushfires, 2021 and 2022 Eastern Australia floods, which has brought about unprecedented claims volumes and losses for insurers and reinsurers.

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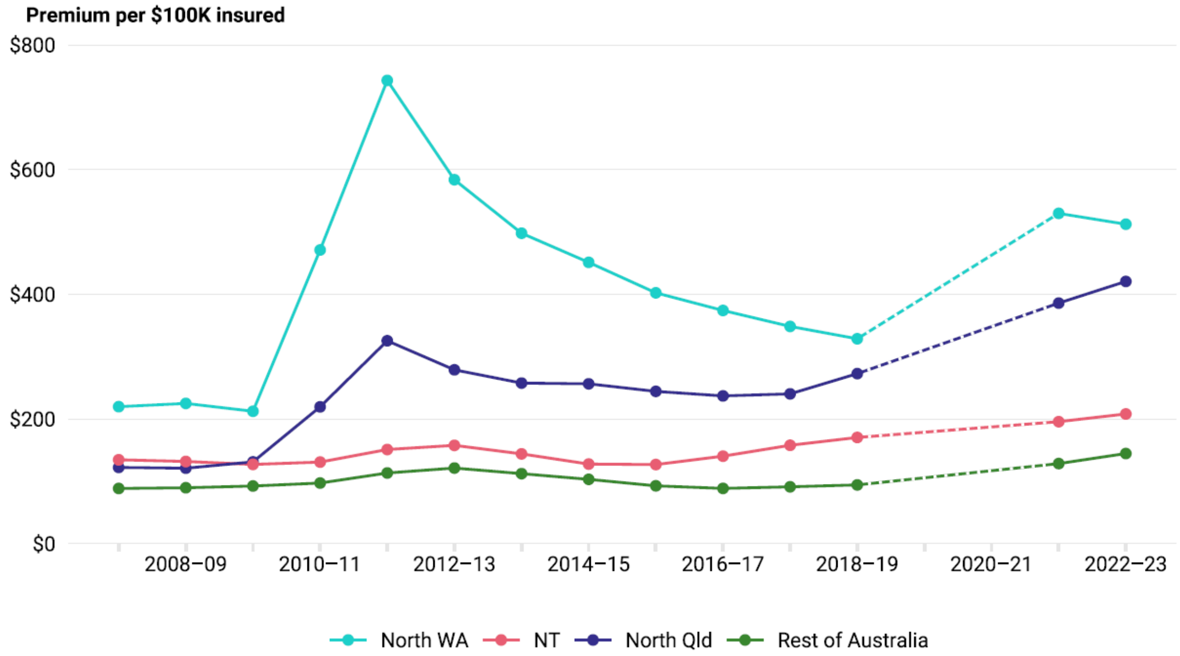
[26] Hannover re. 2023. Hannover Re anticipates improved global reinsurance market terms and conditions to reflect rising loss costs.

[27] Insurance Council of Australia. 2023. Future Proofing Australia's Resilience Insurance Council of Australia Summary report. Page 4.

[28] Ibid.

Figure 2: Average premiums per $100,000 sum insured for strata insurance, by region, 2007-08 to 2022-23



Source: Australian Competition and Consumer Commission. 2023. [Insurance Monitoring Report – December 2023]. Page 116.

Between 2007-08 to 2018-19 the strata insurance Net Loss Ratio (NLR) for the Northern Australia region, which historically has higher natural perils risk relative to the rest of Australia, was on average 85% compared to 64%.[29] Insurers would have needed to increase insurance premiums in higher-risk areas, as evident in Figure 2, to reflect this increased risk and to ensure the business remains sustainable in the long run.

A NLR that exceeds 100% suggests that an insurer's incurred losses exceed the premiums collected. It is worth noting that NLR accounts for the benefits and cost of reinsurance but does not consider operating expenses borne by the insurer, like a Combined Operating Ratio would.

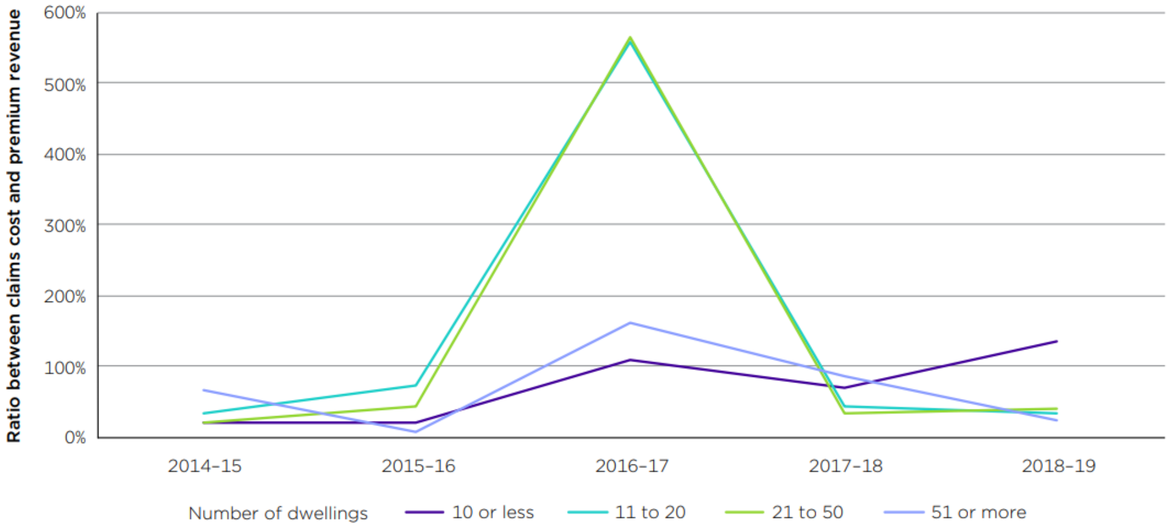
There is a high likelihood that the affordability concerns will expand further across the country given the upwards pressure on reinsurance costs, claims costs (including inflationary impacts of cost of repair and building supplies) and the expanding regions across Australia that are being impacted by extreme weather events.

The Insurance Council commends the Australian Government's commitment to addressing resilience and improving consumer outcomes, through the Hazard Insurance Partnership (HIP), the Disaster Ready Fund (DRF) and the work on the Insurance Affordability and Natural Hazards Reduction Taskforce. However, there are still buildings that have been or are being built in high-risk geographic locations, which has potential to or already impacts the lives of many Australians.

[29] Australian Competition and Consumer Commission. 2020. Northern Australia Insurance Inquiry - Final Report - 30 November 2020. Page 113.

Case Study: Northern Australia

Figure 3: Ratio between claims costs and premium revenue for strata properties of different sizes in northern Australia, 2014-15 to 2018-19



Source: Australian Competition and Consumer Commission. 2020. Northern Australia Insurance Inquiry - Final Report - 30 November 2020. Page 415.

According to the *Northern Australia Insurance Inquiry - Final Report* by the ACCC, strata insurance profitability in northern Australia was poor, incurring an estimated loss of $67 million from 2007–08 to 2018–19. [30] This was driven by impacts of cyclone Debbie in 2016-17 (Figure 3), with claims costs reported to be over 5 times higher than the insurance premiums received by an insurer for strata complexes that had 11 to 50 dwellings.

Figure 4: Average claim cost per policy by claim type in northern Australia and the rest of Australia, 2008-09 to 2017-18, real $2018-19

Claim cause	Average claim cost per policy in Northern Australia ($)	Average claim cost per policy in the rest of Australia ($)
Storm	1,843	313
Cyclone	320	13
Water damage	285	369
Flood	124	5
Fire and explosion	76	139
Accidental damage and loss	31	36
Impact	29	62
Vandalism/malicious damage	19	37
Fusion	12	13
Storm surge	5	1
Theft	3	3
Liability	3	10
Earthquake	1	2
Bushfire	0	1
Unclassified	705	131

Source: Australian Competition and Consumer Commission. 2020. Northern Australia Insurance Inquiry - Final Report - 30 November 2020. Page 411.

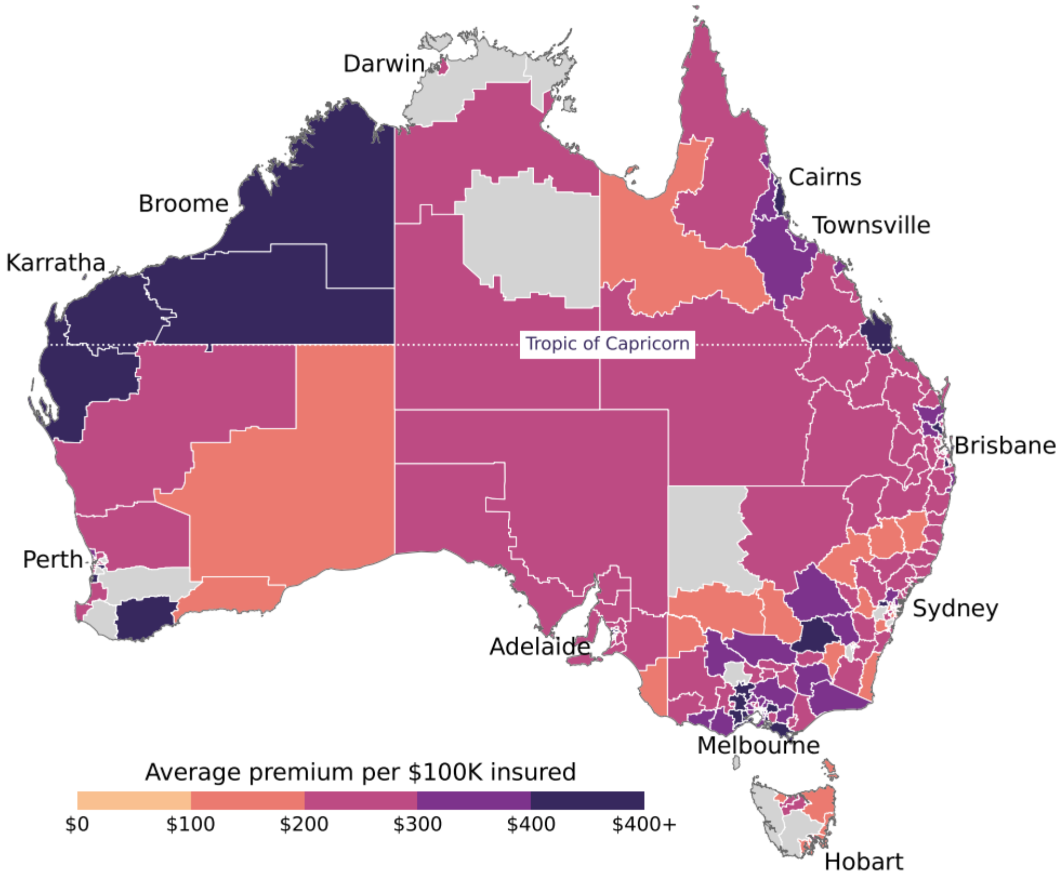
[30] Australian Competition and Consumer Commission. 2020. Northern Australia Insurance Inquiry - Final Report - 30 November 2020. Page 415.

A closer look at average claims cost for strata insurance in Figure 4 highlights the relative severity of weather events that occur in northern Australia relative to the rest of the country.[31] On average, storms in northern Australia cost almost six times more per policy, while floods and cyclones cost over 20 times more. The report also highlighted some insurers' response to the losses, such as avoiding 'significantly under-priced business', increasing premiums and reducing far north Queensland (QLD) exposure due to the quality of risk.[32]

On this basis, it is not unexpected that reinsurance cost for strata insurance is higher in northern Australia than other regions, which is largely attributable to high risk of cyclones.[33] In north QLD for example, insurers spent an average of $527 per policy on reinsurance for cyclone, for strata policies with a sum insured of less than $2 million. This is compared to just $56 for the rest of Australia.[34]

Consequently, it has impacted insurance affordability for strata complexes in specific regions of Australia. The higher levels of strata insurance premiums in certain areas of the northern Australia coastline relative to the rest of Australia are reflected in Figure 5.

Figure 5: Average premiums for strata insurance, by Statistical Area Level 3, 2023



Source: Australian Competition and Consumer Commission. 2024. Insurance Monitoring Report – September 2024. Page 30.

[31] Australian Competition and Consumer Commission. 2020. Northern Australia Insurance Inquiry - Final Report - 30 November 2020. Page 411.

[32] Ibid. Page 415.

[33] Australian Competition and Consumer Commission. 2023. Insurance Monitoring Report – December 2023. Page 129.

[34] Ibid.

Impacts of Structural Issues

Structural issues are attributable to poor building and design compliance, audit and certification processes pre-occupancy, poor land-use planning and maintenance of strata schemes. These challenges put consumers under public health and safety risks and have likely contributed to the increase in building defects found in strata complexes. Not only can it leave communities vulnerable at times of crisis, but concern also exists that it may lead to an uninsurable Australia in the future.

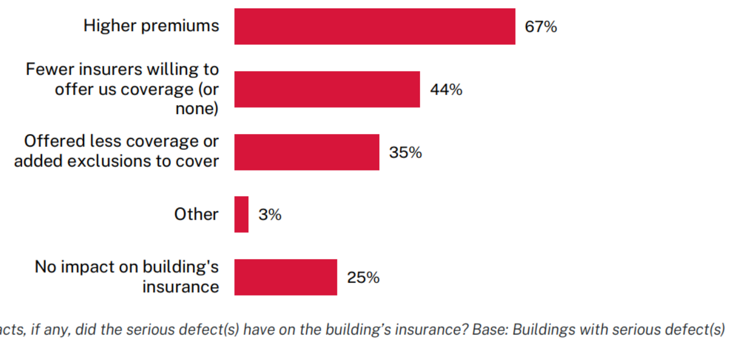
A review in 2023 by the Australian Construction Industry Forum found there is still significant work to be done by State and Territory Governments to implement all recommendations from the 2018 *Building Confidence Report*, including enhanced education and training of building practitioners, greater rigor in the certification of design and construction, and improved auditing and enforcement of non-compliant work.[35]

A 2021 report by the Centre for International Economics (CIE), commissioned by the Australian Building Codes Board (ABCB) highlighted that up to 72 per cent of residential properties in Australia have defects with an estimated cost of $2.5 billion per annum, of which $1.3 billion relate to residential apartments.[36] This cost covers a wide range of defect types such as structural, fire protection, cladding, waterproofing/weatherproofing and entry/exit problems.[37]

Further, building defects that are not rectified in a timely manner or left entirely unaddressed can occur because of failures to enforce a developer's liability or prevent illegal phoenixing and are more likely to result in damages and costs borne by lot owners and insurers in the long run.[38]

The prevalence of defects increases the risk of insuring the property, which drives the increasing cost of insurance. This is evident through the 2023 New South Wales Government research into strata defects which highlighted that two-thirds of buildings with serious defects has faced higher insurance premiums (Figure 6).[39]

Figure 6: Impact of building defects on the building's insurance



Source: New South Wales Government. 2023. 2023 Strata Defects Survey Report – November 2023. Page 35

[35] Holly Helprin. 2023. Australian Construction Industry Forum. A Cross-Jurisdictional Review of the Implementation of the Building Confidence Report - Final. Page 4-11

[36] The Centre for International Economics. 2021. The Australian Building Codes Board. Building Confidence Report - A Case for intervention. Page 3

[37] Ibid.

[38] 'Illegal phoenix activity' occurs when a new company continues the business of an existing company, that has been liquidated or otherwise abandoned to avoid paying outstanding debts, without paying true or market value.

[39] New South Wales Government. 2023. 2023 Strata Defects Survey Report – November 2023. Page 35.

Another significant issue that has perhaps escaped the scrutiny it warrants is Australia's older strata complexes. NSW Building Commissioner, David Chandler OAM has previously suggested that about 50,000 strata buildings in NSW are over 25 years old.[40] The NSW Building Commission has raised concerns about the significant works that were conducted throughout a building's lifetime without any regulatory oversight prior to the *Design and Building Practitioners Act 2020* (DBP Act) coming into effect, nor made to comply with the building code of Australia.[41]

Concerns regarding the quality and safety of buildings, particularly for homes built on floodplains and along coastlines with high cyclone and cyclone-related flooding risks, are exacerbated by the effects of climate change. Mitigating risks associated with the quality of the building and defects is critical to managing the predictability of special levies and insurance premiums and relieve the financial burden of lot owners in a strata scheme.

Impacts of Strata Scheme Management

Inconsistent or substandard management of strata complexes can risk lowering the quality of apartment living and heighten financial, public health and safety risks for strata residents and the broader community.

Members of owners corporations can have diverse views on how a strata complex should be managed, owing to differing goals, lot occupancy situations and financial positions. This can impact the effectiveness of decision-making and risk mitigation activities.

Research conducted by the Australian Housing and Urban Research Institute (AHURI) noted that a major challenge for strata schemes is the prioritising of *"immediate issues (such as repairs and maintenance)"* and a lack of *"capacity to allocate time to forward planning"*.[42] These challenges can hamper efforts to de-risk and manage strata complexes. For example, motions to raise funds to invest in building resilience against natural-perils may receive pushback if owners do not want to commit to funding. This can have longer term consequences as discussed above, with deferred or lack of maintenance and mitigation investment exacerbating losses experienced by consumers and insurers alike, which contribute to the rising cost of insurance.

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[40] Jimmy Thomson. 2022. Australian Financial Review. 'End-of-life' older apartment blocks are strata's new challenge. Date accessed: 20 November 2024

[41] Ibid.

[42] Hazel Easthope, Jasmine Palmer, Andrea Sharam, Megan Nethercote, Gloria Pignatta and Laura Crommelin. 2023. Australian Housing and Urban Research Institute. Delivering sustainable apartment housing: new build and retrofit. Page 44.

Government Intervention

Mitigation Investment

While industry and Government can work to address affordability issues, there remains a pressing requirement to limit threats to human safety from extreme weather events and poor-quality builds. The Commonwealth Scientific and Industrial Research Organisation indicated that *'every dollar government invests in climate adaptation or disaster risk reduction saves between $2 and $11 in recovery'.*[43] Without strong partnership between governments and the insurance sector on policy solutions to manage risk and drive down cost pressures on insurance.

As part of the 2022-23 October Budget, the Australian Government announced a new partnership known as the HIP, which aims to bring Government and industry together to share data and inform government decisions around mitigation infrastructure, with the goal to put downward pressure on insurance premiums.[44] A five-year $1 billion DRF for mitigation infrastructure, matched by co-contributions by the states and territories, was also established.[45] The DRF saw $200 million allocated to 187 projects across Australia to boost preparedness and resilience to natural disasters in 2023-24.[46]

On 14 May 2024, the Treasurer, the Hon Jim Chalmers MP delivered the 2024-25 Federal Budget, which included the establishment of an Insurance Affordability and Natural Hazard Risk Reduction Taskforce.[47]

Reinsurance Pool

In July 2022, the Australian Government established the Cyclone Reinsurance Pool (CRP) under the management of the Australia Reinsurance Pool Corporation (ARPC) to help address high costs of insuring cyclone risk in Australia. The CRP, which is backed by a $10 billion Government guarantee, was designed to provide reinsurance capacity in cyclone-prone regions at a lower cost to insurers, with a stated goal of achieving some savings for consumers, and improve access to insurance for home, strata and small business consumers in the northern Australia market.[48]

Insurers who write policies in northern Australia that are eligible to be included in the CRP were or are required to join the CRP, that is, purchase reinsurance through the CRP.[49] Essentially, the Australian Government acts as the reinsurer to offer relatively more affordable reinsurance to insurers with eligible policies. In the ACCC's third *Insurance Monitoring Report* released in 2024, it was found that the CRP has resulted in some cost savings for insurers writing policies in higher cyclone risk regions of Australia and that insurers are passing those savings through to consumers.[50] However, some cost savings generated by the CRP have been offset to varying extents by other costs.[51] As an example, consumer advocacy groups raised concerns that excessive commission payments to strata managers may dilute savings achieved through the CRP.[52]

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[43] Commonwealth Scientific and Industrial Research Organisation. 2021. Facing the future of disaster resilience. Date accessed: 20 November 2024

[44] National Emergency Management Agency. 2023. Hazards Insurance Partnership. Date accessed: 22 February 2024

[45] Australian Government. 2022. Budget Paper No. 2. Page 147.

[46] National Emergency Management Agency. 2023. Disaster Ready Fund. Date accessed: 20 November 2024

[47] Department of the Prime Minister and Cabinet. 2024. Budget: 2024-25 | PM&C. Date accessed: 20 November 2024

[48] Australian Reinsurance Pool Corporation. The Cyclone Pool. Date accessed: 20 November 2024; Australian Competition and Consumer Commission. 2023. Insurance Monitoring Report – December 2023. Page 78.

[49] Large insurers were required to enter the CRP by 31 December 2023, other insurers have until 31 December 2024.

[50] Australian Competition and Consumer Commission. 2024. Insurance Monitoring Report – September 2024. Page 1.

[51] Ibid. Page 1

[52] Ibid. Page 24.

While government-backed reinsurance pools may put downward pressure on premiums in the short term or encourage insurers to re-enter a targeted market, they may also mask the underlying risk, or downplay the need for risk reduction. For example with the CRP, while the cyclone risk is reinsured through the pool, other risks, including flood, inflation in building supply and labor costs, poor building standards, and poor maintenance regimes, still exist and may increase, and insurers will need to price accordingly. Hence, the CRP may not have had the effect of materially shifting an insurer's core underwriting appetite. The 2023 *Insurance Monitoring Report* acknowledges that the CRP may not, on its own, motivate all insurers to expand their supply of insurance to cyclone-prone regions.[53]

The rising cost and limited availability of insurance will impact a growing population of Australians as more regions are being impacted by extreme weather events on a more frequent basis. As such, interest in reinsurance pools or alternative methods to reduce upward pressure on premiums remains strong. Governments considering such interventions should work closely with insurers and stakeholder groups to ensure that they go hand in hand with clear and fully funded mitigation programs including relocations and buy-backs of properties where risk is unable to be mitigated.

Case study: Market Interventions in the United States

In the United States, the Brookings Institute submitted to Congress in 2023 that despite the longstanding existence of the National Flood Insurance Program (NFIP), structural flood mitigation projects remain insufficient. The NFIP is a *"public-private partnership between the federal government, the property and casualty insurance industry, states, local officials, lending institutions, and property owners"* providing flood insurance to help reduce the socio-economic impact of floods.[54] The Brookings Institute stated that while US governments were providing for disaster recovery through the NFIP, mitigation at *"both the property and infrastructure levels, including thoughtful buyouts for severe-repetitive loss properties"* remains underfunded.[55] Climate risks can only be addressed through mitigation and adaption measures, which will be explored further in the section The Changing Climate.

More generally, insurance market interventions must not create long term distortionary effects that impact the sustainability of the insurance market. The state of California is currently experiencing the unfortunate consequences of unsustainable interventions in its property insurance market. Market interventions to improve insurance affordability in California have made the operation of insurance business in the state unsustainable.[56] These markets interventions include California's Fair Access to Insurance Requirements (FAIR) plan, which mandates that insurers writing policies in that state must partner in financially backing property insurance policies of last resort for individuals and businesses. This financial backing means that these insurer in a state's FAIR Plan *"profits, losses and expenses at an amount proportional to its market share in the state"*.[57] In early 2023, The United States Senate Budget Committee heard from actuarial firm Millman that the California FAIR Plan is *"growing unsustainably high"* and insurers *"are on the hook for the FAIR plan's potential insolvency"*.[58]

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[53] Australian Competition and Consumer Commission. 2023. Insurance Monitoring Report – December 2023. Page 78.

[54] Department of Homeland Security. The National flood Insurance Program. Date accessed: 20 November 2024

[55] Carlos E. Martin. 2023. Challenges and opportunities in the quality and quantity of flood hazard insurance policies. Page 1.

[56] Alexei Koseff. 2023. Cal Matters. California lawmakers failed to fix the insurance market. So what comes next? Date accessed: 20 November 2024

[57] National Association of Insurance Commissioners. 2023. Fair Access To Insurance Requirements (FAIR) Plans. Date accessed: 20 November 2024

[58] Thomas Frank and E&E News. 2023. Scientific American. Climate Change Is Destabilizing Insurance Industry. Date accessed: 20 November 2024

State Government Measures

In situations where strata complexes cannot secure insurance coverage, self-insurance and other alternatives may be agreed upon with Government's approval.[59] For example, the New South Wales Civil and Administrative Tribunal can exempt an owners corporation from obtaining building insurance but only if it forms the opinion that insurance is 'unnecessary or impracticable' and all persons required to insure the building have consented in writing.[60] However, this leaves exempted owners corporations uninsured.

Further, the *Body Corporate and Community Management Act 1997 (QLD)* was amended in 2023 to enable a body corporate to make an adjudication application for an alternative insurance order if the body corporate cannot comply with its obligation to insure particular buildings for full replacement value.[61] However, there is limited evidence at this stage to demonstrate the effectiveness of the alternative insurance mechanism due to its recency.

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[59] For example, see *Strata Schemes Management Act 2015 (NSW),* s172.

[60] Ibid.

[61] *Body Corporate and Community Management and Other Legislation Amendment Act 2023 No.29 (QLD)*, s20; Queensland Government. 2023. Queensland Legislation. Body Corporate and Community Management and Other Legislation Amendment Bill 2023 – Explanatory Note.

Measures to Improve Outcomes in the Strata Sector

Strata Scheme Management

Strata Committees

Given voluntary members elected to a Strata Committee may have little to no knowledge or education of how a strata complex should be managed, there are benefits from appointing a strata manager to support better understanding, management and de-risking of strata complexes.

Peak bodies such as the Strata Community Association (SCA) have been strongly advocating for and producing educational material to support improved education for Strata Committees and owners corporations. There are SCA-provided Committee Training courses for each State and Territory that focus on good governance to help Strata Committees achieve compliance with strata legislation.[62]

Whilst there is a great need to uplift awareness and education, many strata complexes struggle to find individuals to join the Strata Committee and can experience a high turnover rate. This creates challenges in maintaining a sustained level of education.

A further challenge relates to strata complexes that have no Strata Committees. Many jurisdictions provide for the ability for a compulsory appointment of management for 'dysfunctional' owners corporation, or where is no Strata Committee.[63] Delegated authority for management can be given to the strata manager to ensure the owners corporation fulfils its responsibilities.

Whilst this is a useful option for owners corporations, educational resources should be further promoted and made accessible to strata residents to improve strata management knowledge and empower owners corporations to make decisions.

Example of Reform in NSW

In November 2024, New South Wales Government introduced the *Strata Schemes Legislation Amendment Bill 2024*, which seeks to address concerns that Strata Committees are falling short of expectations through imposing additional duties, obligations and education.[64] New South Wales Government also acknowledges and aims to address the challenges regarding lack of or deferred maintenance carried out by owners corporation through the *Strata Schemes Legislation Amendment Bill*.[65]

Strata Managers

Strata managers are delegated a range of functions such as coordinating the affairs of lot owners, organising and conducting meetings, collecting strata levies, arranging property maintenance, advising on asset management, placing insurance and keeping financial accounts.[66] Following instruction from

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[62] Strata Community Association. 2020. Education. Date accessed: 20 November 2024

[63] For example, *Strata Schemes Management Act 2015 (NSW),* s237; *Body Corporate and Community Management Act 1997 (QLD),* s120; Queensland Government. 2023. Body corporate managers under other Acts; *Owners Corporations Act 2006 (VIC),* s121 and 125.

[64] New South Wales Government. 2024. *Strata Schemes Legislation Amendment Bill 2024*

[65] Ibid.

[66] Strata Community Association NSW. 2021. Strata Managers role. Date accessed: 20 November 2024

the owners corporation, it is a strata manager's role to coordinate the affairs of a strata scheme to ensure building(s) and common areas are properly maintained.

There are at least 36 pieces of legislation and associated regulations across Australia forming the suite of strata laws regulating strata insurance.[67] Each jurisdiction has established a different legislative framework and state-based authority to regulate strata managers. Greater standardisation of legislative requirements and continued efforts to raise standards regarding capability and conduct of strata managers will be beneficial, given the increasing size of the strata community, to ensure that strata complexes are well-managed.

The table below summarises the differences in licensing requirements, qualifications and codes of conduct for strata managers across different jurisdictions.

	Legislated	Not required	Other approaches/comments
Licensing requirements	ACT, NSW and NT	TAS, SA, WA, QLD	In Victoria (VIC), strata managers need to be registered with Business Licensing Authority
Qualifications	ACT, NSW, WA and NT	VIC, TAS, SA and QLD	Western Australia is the only State to require mandated qualifications that capture the administration of strata insurance
Code of conduct	ACT, NT, QLD, VIC, and SA	WA and TAS	New South Wales' Code of Conduct has extensive descriptions regarding the functions and powers of strata managers but lacks provisions regarding conduct.

Educational requirements for strata managers are important to the ongoing effectiveness of strata scheme management for a growing population of strata residents in Australia. The qualifications required for strata managers in some jurisdictions, including NSW, the Australian Capital Territory (ACT) and WA, generally include a diploma or Certificate IV.[68]

In NSW, strata managers also need to have work experience and continuing professional development, to satisfy licensing requirements.[69]

In WA, strata managers can choose to undertake a unit of competency as part of their Certificate IV that focusses on the skills and knowledge required to administer insurance for strata communities in line with strata community instructions and regulatory requirements including:

- identifying the insurance requirements of different strata communities;
- obtaining instructions;
- sourcing and placing suitable insurances;
- assisting with lodging insurance claims; and

[67] Nicole Johnston (lead author) with Adrian Lee, Sagarika Mishra, Karen Powell, Mark Bowler-Smith and Ambika Zutshi. 2021. *Deakin University*. A data-driven holistic understanding of strata insurance in Australian and New Zealand. Deakin University. Page 3.

[68] For example, *Agents Regulations 2003 (ACT), s7A; Agents (Qualifications and Experience for License) Declaration 2022 (No.1) (ACT), Schedule 1; Agents (Qualifications and Experience for Registration – Assistant Property Agents) Declaration 2022 (No 1) (ACT), Schedule 1; Agents (Continuing Professional Development for Owners Corporation Managing Agents) Guideline 2009 (No 1) (ACT), s2; Strata Titles (General) Regulations 2019 (WA), Schedule 4; Agents Licensing Act 1979 (NT), s17*

[69] NSW Fair Trading. Strata managing agent licence. Date accessed: 20 November 2024

- reviewing insurance arrangements.[70]

This knowledge can be useful in instances where an owners corporation does not engage with an insurance broker to help administer the insurance policy.

The SCA have designed an education pathway for strata managers at the national and State levels.[71] In particular, SCA NSW is a NSW Fair Trading-approved Continuing Professional Development (CPD) provider that has established the Professional Standards Scheme and CPD courses.[72]

The SCA developed the Strata Management Practice Standard (SMPS), a voluntary practice standard for strata community management businesses to strengthen their internal procedures and management of contractual relationships with strata communities.[73]

It is critical that relevant strata management groups continue to uplift industry practices to ensure strata managers and brokers act in the best interest of consumers through:

- improved disclosure and transparency of fees and/or commissions;
- strengthened declaration and management of conflicts of interests; and
- improved consumer education to support positive outcomes for consumers that live in strata complexes.

The Insurance Council encourages State Governments to place greater focus on strata manager's ongoing development and education to support better management of strata schemes and reduce risks of consumer harm.

Recommendations:

1. Strata management companies and peak bodies should actively educate strata managers, Strata Committees and owners corporations regarding roles, responsibilities, legislative requirements, administration of insurance and risk management guidelines to support de-risking of strata complexes.
2. The Insurance Council to develop consumer educational materials to improve lot owners' understanding of insurance risk mitigation and insurance cost drivers.
3. Governments across the country should consider legislative reforms relating to licensing, qualifications and conduct of strata managers, if not already introduced, to support greater standardisation of strata management practices and capabilities across jurisdictions.

[70] Australian Government. National Training Register - CPPSCM4084 Administer insurance for strata communities. Date accessed: 20 November 2024

[71] Strata Community Association. 2020. Education. Date accessed: 20 November 2024

[72] Strata Community Association NSW. 2024. Education Overview. Date accessed: 20 November 2024

[73] Strata Community Association. 2020. Practice Standard. Date accessed: 20 November 2024

Transparency and Disclosure of Fees and Commissions

There is a high degree of transparency provided by insurers regarding the cost breakdown of insurance premium, through invoices submitted to the strata manager or broker, where one is appointed. However, the cost breakdown or invoice may not be passed on to the owners corporation in its original form and insurers are unlikely to have visibility of additional fees that are charged to the owners corporation and increase the overall cost of insurance.

Disclosure practices may vary amongst intermediaries regarding the cost of insurance premiums and other fees charged by intermediaries to an owners corporation, in connection to the purchase of insurance. For example, not all State-based laws require strata managers to provide full and transparent disclosure of financial interests and benefits to owners corporations, which makes it difficult for them to assess the value and benefit of the strata insurance.[74]

In all jurisdictions, except for Northern Territory (NT) and Tasmania (TAS), which are silent on disclosures, strata managers must disclose any financial interests, commission, or benefit they stand to gain from performing their functions, such as by initiating contracts to do with insurances.

In Western Australia (WA), it is specified that any benefit, financial or otherwise, with a value exceeding $100 must be disclosed.[75] It is important that disclosure of fees and commissions is provided to the policyholder (the owners corporation) and the end-consumer (the lot owners).

Following the 2022 *Quality of Advice Review*, a new requirement was introduced in the Corporations Act for insurance intermediaries to obtain the prior consent of the Retail Client before receiving commissions, which comes into effect in July 2025.[76]

The Insurance Council welcomes the new requirement for consent of the Retail Client before receiving commissions and supports John Trowbridge's recommendation for strata managers to provide owners corporation with:

- more clarity regarding the scope of services and roles undertaken by strata managers and brokers; and
- greater transparency of commercial relationships that may exist between strata managers, brokers and underwriters and how that impacts costs borne by lot owners.[77]

Given the number of parties involved through the purchasing process, the insurance cost breakdown should be explained in a way such that the nature of the remuneration for services is fully understood by the owners corporation (or Executive/Strata Committee) before a decision is made to purchase the cover.

The Insurance Council supports the recommendations put forth by John Trowbridge in his *Independent Review of Strata Insurance Practices - Phase 1 Report*, regarding improvements to transparency and disclosure by adopting standardised templates to list each sub-cost item.

The SCA released a Best Practice Strata Insurance Disclosure Guide for their members in December 2023 that seeks to improve Strata Committee's understanding of the fees and charges.[78] Specifically,

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[74] John Trowbridge. 2022. Independent Review of Strata Insurance Practices – Phase 1. Page 22.

[75] Australian Competition and Consumer Commission. 2020. Northern Australia Insurance Inquiry - Final Report - 30 November 2020. Page 475.

[76] See *Treasury Laws Amendment (Delivering Better Financial Outcomes and Other Measures) Act 2024*, Schedule 1, Part 5 and the *Corporations Act,* Section 963BB.

[77] John Trowbridge. 2022. Independent Review of Strata Insurance Practices – Phase 1. Page 21.

[78] Strata Community Association. 2023. Peak Strata Body Releases Landmark Strata Insurance Disclosure Best Practice Guideline; Strata Community Association. 2023. SCA Best Practice Strata Insurance Disclosure Guide. Page 2-3.

the guidance recommends the disclosure of eight financial items, which largely aligns with insurance sub-cost items in John Trowbridge's proposed template. These include base premium, stamp duty, goods and services tax, any emergency services/fire services levy, underwriting agency fee, broker fee, commission, and further details of the sharing arrangement between the strata manager and broker of total fees and/or commissions.[79]

The National Insurance Brokers Association (NIBA) implemented remuneration disclosure obligations for retail clients, as defined in the Corporations Act, in its 2022 Insurance Brokers Code of Practice (the NIBA Code).[80] Specifically, subscribers of the NIBA Code will need to disclosure:

- the dollar amount of commission they will or expect to receive;
- any non-monetary remunerations they receive from insurers;
- any fees payable by their client in relation to services provided; and
- whether they intend to keep any portion of the commission or service fee if the policy is cancelled before it is due to expire.[81]

In September 2024, NIBA produced guidance to clarify expectations of their members in relation to strata insurance policies.[82] This sets out that when an insurance broker appoints a strata manager as a Distributor or Authorised Representative for the purpose of procuring the strata insurance, the broker must ensure that the strata manager is meeting obligations of the NIBA Code.

This includes disclosing commissions and fees that are paid to strata managers in dollar value and adequately managing conflicts of interest.[83] NIBA's guidance also requires brokers to review remuneration arrangements with strata managers periodically to ensure they are not creating unmanageable conflicts of interest.[84]

SCA and NIBA's guidelines are a positive step towards improving brokers' and strata managers' accountability and disclosure practices, but it is critical that informed consent is received from the owners corporation prior to receiving commissions.

Examples of Reform in NSW

In NSW, the strata manager must provide the owners corporation with at least three strata insurance quotations *"from different providers for each type of insurance proposed by the [strata managing] agent"* pursuant to section 166 of the *Strata Schemes Management Act 2015.*[85] It is worth noting that the requirement strictly relates to the obligations of the strata manager, and not the owners corporation or insurance broker, with justification required if a strata manager fails to provide a minimum of three quotations to the owners corporation.

There is currently no requirement to engage an insurance broker or for a broker to provide owners corporation with three quotations. However, we understand the legislative requirement in NSW has encouraged strata managers to involve brokers in the process of identifying the most suitable strata insurance cover and deal less directly with underwriters due to the technicalities of insurance.

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79 Ibid.

80 National Insurance Brokers Association. 2023. Commission disclosure provisions commence. Date accessed: 20 November 2024

81 National Insurance Brokers Association. 2023. Code of Practice. Page 12.

82 National Insurance Brokers Association. 2024. NIBA Strata Guidance.

83 Ibid. Page 5 and 6.

84 Ibid. Page 6.

85 *Strata Schemes Management Act 2015* *(NSW)*, s166.

The Insurance Council welcomes a post-implementation review of the impacts of the requirement to source at least three insurance quotations in NSW. The involvement of a broker to source multiple quotations may increase the overall cost of insurance borne by an owners corporation but it is unclear whether the policy intent was achieved. The requirement to seek three quotations also limits an owners corporation's ability to choose the number of quotations it wishes to source and reduce the overall cost of insurance, where they see fit.

More recently, the NSW *Strata Managing Agents Legislation Amendment Bill 2024* was passed in September 2024.[86] This expands disclosure requirements for strata managers, commencing in February 2025, seeking to improve existing disclosure of insurance broker commissions in relation to strata insurance and the owners' corporation's awareness of such costs.[87] The disclosure must include a breakdown of all costs, including details of any commissions and fees payable to the broker, expressed as a dollar amount and percentage of premium for each strata insurance policy.

Strata managers in NSW will be required to provide all quotes containing full disclosure of the commissions and fees to the owners corporation. Further, strata managers will be required to provide written notice to the owners' corporation as soon as practicable after becoming aware of certain circumstances that give rise to conflicts of interest.[88]

The Insurance Council welcomes clear and transparent disclosure of remuneration and benefits that will help empower Strata Committees, consumers and strata managers to have constructive conversations and make informed choices about insurance-related matters, including whether a broker should be engaged if it may compound the cost of insurance.

Recommendations:

4. New South Wales Government should conduct a post-implementation review of the impacts of Section 166 of the *Strata Schemes Management Act 2015 (NSW)*, which requires a strata manager to seek at least three insurance quotations from different providers for the owners corporation, to assess whether it remains fit for its intended purpose.
5. The National Insurance Brokers Association should continue their efforts in addressing remuneration and fee disclosures by ensuring standardised granular disclosure of insurance premiums, duties, taxes, remuneration paid to brokers and strata managers and other fees, and adopting informed consent obligations coming into effect July 2025.

86 *Strata Managing Agents Legislation Amendment Bill 2024 (NSW)*
87 New South Wales Government. 2024. Changes to strata laws. Date accessed: 20 November 2024
88 *Strata Managing Agents Legislation Amendment Bill 2024 (NSW)*

Construction

Building Codes and Legislation

The National Construction Code (NCC) is Australia's primary set of technical design and construction provisions for buildings.[89] Each State and Territory have further legislations that make up their own regulatory framework, such as those that have the objective of regulating building construction, minimising defects prior to occupancy, enforcing the obligations of developers and building contractors as well as imposing maintenance of certain building features. Local governments also have the responsibility of land-use planning and approval of building development projects.

The distribution of regulatory accountabilities across Federal, State and Local governments and the ABCB gives rise to complexity in the system, and appropriate coordination across all parties will be needed to advance risk mitigation and building resilience efforts. These regulatory frameworks and powers will need to be modernised and simplified to improve the quality and safety of buildings for consumers, improve consumers' understanding of the consumer protections that exist if building practitioners and developers do not meet their obligations.

In 2022, the New South Wales Government proposed to create a single Building Compliance and Enforcement Act to ensure the effective oversight of all building work in NSW.[90] The New South Wales Government has yet to report on the outcome of the consultation regarding the proposals since it closed on 25 November 2022.[91] The Insurance Council welcomes the New South Wales Government's plans to reform building laws with the intent to modernise and simplify building legislation, improve accountability and transparency as well as ensure high-quality design, construction and maintenance.[92]

Building Confidence Report

In 2017, Australian Building Ministers commissioned an expert review of building compliance and enforcement across all jurisdictions, in response to community and industry concerns about weaknesses in building regulation across Australia. The *Building Confidence Report*, published in 2018, made 24 recommendations to Building Ministers to address systemic issues in the building industry and enhance regulatory frameworks to ensure compliance and enforcement of building standards.[93]

The Insurance Council continues to encourage Australian governments to implement the remaining recommendations in the *Building Confidence Report*. These include ensuring competent practitioners are involved in the design and construction of buildings with these practitioners supported by stronger auditing and enforcement regimes.[94]

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[89] The Australian Building Codes Board. National Construction Code. Date accessed: 20 November 2024

[90] New South Wales Government. Strengthening building compliance and enforcement. Date accessed: 20 November 2024

[91] Ibid.

[92] New South Wales Government. Reforming building laws in NSW Date accessed: 20 November 2024

[93] Prof Peter Shergold AC and Bronwyn Weir. 2018. Department of Industry, Science and Resources. Building Confidence: Improving the effectiveness of compliance and enforcement systems for the building and construction industry across Australia.

[94] Insurance Council of Australia. 2023. Building Australia's Resilience. Page 9.

Some further potential reforms to improve the quality of strata complexes, and ensure that strata complexes remain insurable, include:

- strengthened regulatory powers to improve the recordkeeping of key building design and construction documentation, monitor building works, require building rectification, and take enforcement action, where necessary;
- greater stringency and independence embedded in the assessment and approval of certain buildings or building feature designs; and
- improvements to the private certification system, whereby private certifiers need to address potential conflicts of interests, and be equipped with the appropriate powers, or be empowered to intervene in construction if severe defects are identified.

Recommendation:

6. Governments across the country should simplify and modernise existing State legislative frameworks that regulate the building design and construction industry.

Compliance Audit and Enforcement

The 2018 *Building Confidence Report* found that compliance and enforcement systems associated with new buildings have not been adequate to prevent problems associated with apartment (particularly high-rise) construction from emerging. It is also suggested that oversight by licensing bodies, State and Territory regulators and local governments can be weak due to inadequate funding or a lack of skills and resources to undertake effective enforcement.[95]

The need for stronger auditing and compliance enforcement was highlighted in the *Opal Tower Investigation Final Report*, delivered in response to the forced evacuation of residents of the Opal Tower in Sydney.[96] It noted that the offending structural beam was *"under-designed"*, and *"construction and material deficiencies"* likely precipitated the observed damage. The report made suggestions including *"independent third party checking and certification of engineering designs"* and *"on-site checking and certification"* that *"construction is as per the design of critical elements"* to avoid similar incidents in the future.[97]

Example of Reforms in NSW

Significant reforms to NSW's regulation of residential strata complexes came into effect in 2020, introducing Occupation Certificate audits conducted within the last six months of a building's construction and new powers in the *Residential Apartment Buildings (Compliance and Enforcement) Act 2020 (NSW)* to compel developers and builders to remediate any serious defects before an occupation certificate is issued. Further, the *Design and Building Practitioners Act 2020 (NSW)* improves compliance by requiring designers and builders to declare and lodge designs and building work on the NSW Planning Portal, which are subsequently assessed.[98] NSW Planning Portal also enables the centralisation of key building design and construction documentation.[99]

[95] Prof Peter Shergold AC and Bronwyn Weir. 2018. Department of Industry, Science and Resources. Building Confidence: Improving the effectiveness of compliance and enforcement systems for the building and construction industry across Australia. Page 4.

[96] Mark Hoffman, John Carter and Stephen Foster. 2019. Unisearch. Opal Tower Investigation Final Report. Pages 1-2.

[97] Ibid.

[98] New South Wales Government. 2023. 2023 Strata Defects Survey Report – November 2023. Page 6.

[99] Prof Peter Shergold AC and Bronwyn Weir. 2018. Department of Industry, Science and Resources. Building Confidence: Improving the effectiveness of compliance and enforcement systems for the building and construction industry across Australia. Page 27-29

Example of Reforms in QLD

The Queensland Government has fully implemented Recommendation 6 from the *Building Confidence Report* that sought to uplift regulatory powers to monitor buildings and building work and take strong compliance and enforcement action. The *Building Act 1975 (QLD)* provides the Queensland Building and Construction Commission (QBCC) with powers to enter and inspect a building site when they gain consent from the person in control of the building site, are authorised by a warrant of a magistrate or when building work is being carried out.[100]

Examples of Enforcement Activity

The QBCC investigated 735 people for unlicensed contracting and 204 people for improper use of a license during 2022-2023.[101] In November 2023, NSW Fair Trading also issued a stop work order to the developer of a Forster apartment building complex that was found to be undertaking work beyond the current construction certificate and utilising contractors that were not licenced to carry out the work.[102]

Relevant authorities should be commended for the reviews and action undertaken to combat illegal activity and poor compliance to reduce the risk of defective work in new buildings and improve outcomes for consumers.

Recommendation:

7. Governments across the country should work towards implementing a national standard for occupancy certification to improve consumer confidence in the quality of strata complexes, similar to those introduced by the New South Wales Government.

Private Certification

Building approval systems in all jurisdictions rely on certification by private building surveyors, which have a direct commercial relationship with designers, owners and builders.[103] A 2019 report by Deakin and Griffith University highlighted the flawed private certification system, noting issues such as the:

- conflicts of interest between the builder and other professionals;
- disconnect between the private certifier/surveyor's statutory role and community expectations; and
- feasibility of inspecting every element of the building before and/or after construction, particularly for high-rise buildings, and the reliance on the competency of other building professionals involved in construction.[104]

Whilst there is no one-size-fits-all approach for private certification given the varied obligations and circumstances across the jurisdictions, there are some examples of reforms and practices worth exploring.

[100] Holly Helprin. 2023. Australian Construction Industry Forum. A Cross-Jurisdictional Review of the Implementation of the Building Confidence Report - Final. Page 54

[101] Queensland Building and Construction Commission. 2023. QBCC blitz on unlicensed workers. Date accessed: 20 November 2024

[102] NSW Fair Trading and NSW Building Commissioner. 2023. New South Wales Government. Stop work order issued to Forster apartment building site. Date accessed: 20 November 2024

[103] Prof Peter Shergold AC and Bronwyn Weir. 2018. *Department of Industry, Science and Resources.* Building Confidence: Improving the effectiveness of compliance and enforcement systems for the building and construction industry across Australia. Page 24

[104] Nicole Johnston and Sacha Reid. 2019. *Deakin University and Griffith University.* Examining Building Defects Research Report. Page 48 and 49

Example of Reforms in VIC

The Victoria Government was identified as the only State/Territory that has adequately addressed the concerns raised in the *Building Confidence Report* regarding private certification through the *Building Act 1993 (VIC)* and other measures, including:

- addressing conflicts of interest by prohibiting builders from appointing a private building surveyor and restricting a private building surveyor from accepting a contract if they have an indirect or direct pecuniary interest or have participated in the design process;
- producing a comprehensive Code of Conduct for private building surveyors and requiring compliance since 2021;
- granting building surveyors with supervisory powers to enter and inspect properties; and
- granting enforcement power to have the power to stop building work and give a direction to fix building work if the work does not comply with regulations or the building permit.[105]

Example of Reforms in NT

The Northern Territory Government requires on-site inspections at critical stages of construction by a private building surveyor to improve the credibility of the certification process. In 2022, the Northern Territory Government introduced mandatory risk assessments for structurally complex buildings to determine the mandatory independent third-party reviews required of the structural designs of certain buildings. However, measures to address concerns regarding the integrity of private building surveyors in the NT are less robust than those introduced by Victoria Government.[106]

Example of Reforms in NSW

The New South Wales Government had increased critical stage inspection requirements in 2017, with Principal Certifiers (PCs) required to undertake inspections at multiple stages. These stages include after excavation, before covering fire protection and resistance elements, before covering waterproofing and stormwater elements as well as after the building work is completed. PCs can be a registered building surveyor, local council or a registered body corporate (certification company).[107]

Recommendation:

8. Governments across the country should consider introducing additional audit checkpoints upon completion of critical building safety features to ensure these are up to standard prior to issuance of occupancy certificate, with quality assurance reports provided to insurers prior to purchase of strata insurance.

Developer's Liability

A developer's oversight and decision-making are highly important to the construction process and helps ensure that defects are minimised and financial damages to lot owners are reduced in the long term. It is critical that developers have longer-term obligations to ensure that buildings remain safe to inhabit, even in the absence of home warranty insurance or if the building company is wound up.

[105] Holly Helprin. 2023. Australian Construction Industry Forum. A Cross-Jurisdictional Review of the Implementation of the Building Confidence Report - Final. Page 46-47

[106] Ibid. Page 9-10

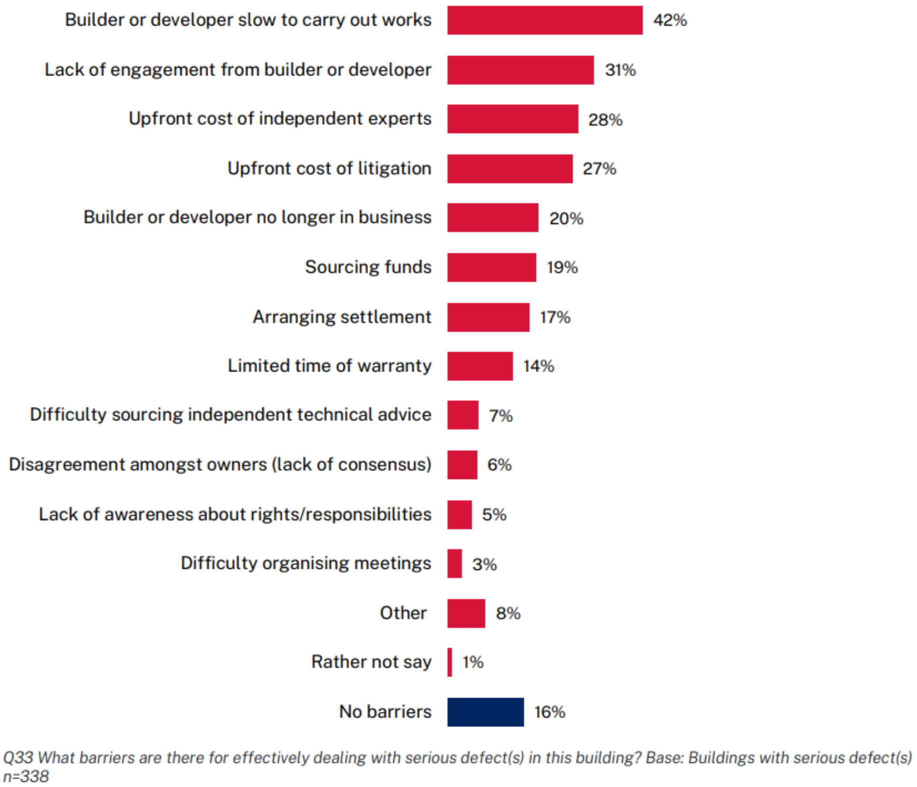
[107] Ibid. Page 39; Service NSW. 2023. New South Wales Government. Find a principal certifier (PC). Date accessed: 20 November 2024

Whilst strata insurance does not cover damage and losses caused by known building defects, strata complexes that are safe and of higher-quality pose lower risks to consumers and are less costly to insure. It is critically important that fit-for-purpose regulatory frameworks are in place to ensure the obligations of developers drive the right incentives, are met, and are enforceable, to provide sufficient consumer protection.

Case Study: Defect Rectification in NSW

Based on New South Wales Government's *2023 Strata Defects Survey Report*, which focussed on recently developed strata schemes, the most common reported barrier to resolving serious defects was a lack of action and engagement from builders or developers.[108] 'Builders and developers that are no longer in business' is one of the top five barriers to effectively dealing with serious defects (Figure 7).[109] This could be problematic if developers intentionally leave behind a shell company to avoid debts or liability for issues such as building defects.

Figure 7: Barriers to effectively dealing with serious defects



Source: New South Wales Government. 2023. 2023 Strata Defects Survey Report – November 2023. Page 33

The primary source of funding used to rectify defects continues to be borne by lot owners in the form of levies (Figure 8).[110] Research by the Deakin University and Griffith University cited instances where lot owners have been forced into bankruptcy as a result of additional special levies that they simply could not pay.[111]

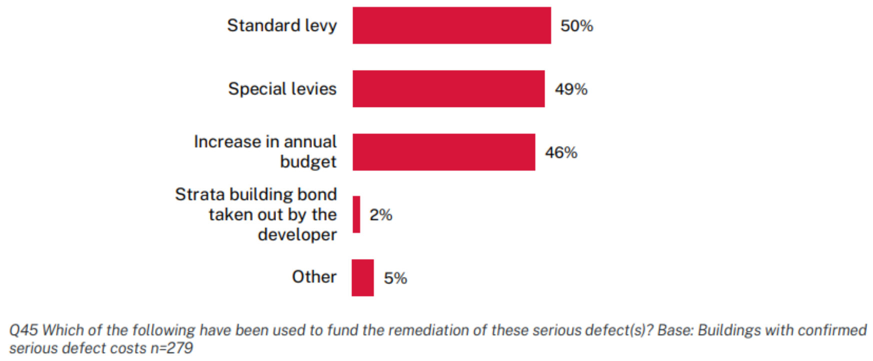
[108] New South Wales Government. 2023. 2023 Strata Defects Survey Report – November 2023. Page 33

[109] Ibid.

[110] Ibid. Page 3 and 34.

[111] Nicole Johnston and Sacha Reid. 2019. Deakin University and Griffith University. Examining Building Defects Research Report. Page 53

Figure 8: Sources of funding for defect rectification



Source: New South Wales Government. 2023. 2023 Strata Defects Survey Report – November 2023. Page 34

Example of Reforms in ACT

The Australian Capital Territory Government recently introduced the *Property Developers Act 2024 (ACT)*, which seeks to restore consumers' confidence in the quality of new developments through:

- giving the government powers to issue rectification orders against property developers, builders, or directors of the property developer if it is wound up, to rectify serious defects during or post-construction;
- establishing a Code of Practice that developers must follow;
- a licensing regime for property developers; and
- encouraging developers to take out insurance that covers building defects for 10 years post-occupancy.[112]

Whilst the effectiveness of the new reforms is yet to be assessed and not all of the new laws have come into effect, the Insurance Council welcomes the Australia Capital Territory Government's commitment to addressing poor behaviour and imposing greater accountability on developers.

Example of Reforms in NSW

Illegal phoenix activity occurs when a new company continues the business of an existing company, that has been liquidated or otherwise abandoned to avoid paying outstanding debts, without paying true or market value.[113]

Existing national laws are only able to address intentional/illegal phoenixing to a limited extent. For example, the disqualification of directors from managing corporations for a maximum of five years and barriers to the resignation of company directors that would leave a company with no directors.[114]

The *Building Legislation Amendment Bill 2023 (NSW)* was passed by the New South Wales Parliament on 21 November 2023.[115] The new laws prevent and penalise intentional phoenixing activities in the construction industry by cancelling or refusing licenses.[116] This move by the New South Wales

[112] Australia Capital Territory Government. 2024. Developer Licensing and Regulation - Environment, Planning and Sustainable Development Directorate - Planning and *Property Developers Act 2024*.

[113] Australian Securities and Investments Commission. Illegal phoenix activity. Date accessed: 20 November 2024

[114] Australian Taxation Office. 2023. Phoenix Taskforce. Date accessed: 20 September 2024; Australian Parliament House. 2019. Explanatory Memorandum – Treasury Laws Amendment (Combating Illegal Phoenixing) Bill 2019.

[115] Parliament of NSW. 2023. Building Legislation Amendment Bill 2023

[116] New South Wales Government. 2023. New laws to restore trust and integrity in building. Date accessed: 20 November 2024

Government signifies the need for more robust measures in other States and Territories to limit consumer harm caused by intentional phoenixing within the construction industry.

Whilst existing and new measures can assist in deterring intentional phoenixing, directors of developers continue to carry limited personal liability into the future after a company has been phoenixed. That is, builders and developers are not compelled to rectify defects or compensate consumers once phoenixing activity, illegal or legal, occurs.

Recommendation:

9. Governments across the country should address existing limitations regarding ongoing/longer term liability of serious defects for builders and developers, where negligence or wilful failure has been identified, with particular focus on expanding existing developer's liability to impose personal liability on directors to combat consumer harm arising from phoenixing activity.

Other Measures to Restore Consumer Confidence

It is evident that developers and builders' failure to comply with building codes and standards, and the deficiencies of the existing auditing and certification process prior to occupancy can have significant long-term implications on the quality of the strata scheme at the detriment of owners and insurers. Potential flow-on impacts include heightened severity and frequency of building defects that surface following building completion, as well as trauma and severe financial loss to lot owners, tenants and insurers that undermine the insurability of strata schemes, noting that strata complexes can be denied coverage owing to poor design.

The Australian community requires proactive intervention by governments to ensure that building quality and compliance issues are proactively identified and managed rather than responded to as events happen.

Decennial Liability Insurance

Since 2022, developers have had to option of taking out Decennial Liability Insurance (DLI) prior to occupation of a building. DLI is intended to cover the cost of repairing defects associated with critical building elements such as structure, waterproofing and fire safety systems. DLI is designed to attach to the building such that successive building owners become the beneficiary of the insurance policy and can make a claim up to 10 years post-occupation.

This will be particularly valuable in cases where builders and developers fail or refuse to undertake defect rectification, which will help boost consumer confidence. There are plans in NSW to set up a mandatory scheme requiring all developers to secure 10-year warranty insurance before a strata complex can be occupied.[117]

Whilst there is interest and support from the industry to test solutions that seek to address defect concerns, there remain concerns regarding the sustainability of the product and potential unintended consequences of mandating the scheme. Pricing for DLI will be challenging given the uncertainties relating to the quality of new buildings. Further, mandating developers to take out DLI has the potential to increase building project costs that will likely be passed on to consumers and exacerbate housing affordability concerns.

Relying on DLI alone will not stabilise the rising cost of strata insurance as it does not incentivise better practices in development and construction, but instead, allows developers to transfer the risk of

[117] New South Wales Government. 2023. Ten year defect insurance for apartment buildings Date accessed: 20 November 2024

poor building standards and maintenance plans to insurers. Mandating DLI without support measures can see 'bad developers' priced out of the market and 'good developers' penalised with high premiums in the long run due to the prevalence of building defects.

State and Territory Governments that wish to introduce a mandatory DLI scheme, or similar, will need to implement sufficient risk controls to support the de-risking of strata complexes. The risk controls should be supported by assessment processes undertaken jointly, or independently, by DLI writers and relevant authorities to enable appropriate pricing.

Building Product Compliance

The Queensland Government has introduced successful laws to discontinue the use and supply of non-conforming building products (NCBP) in construction. The QBCC has identified 33 NCBPs around the State since the NCBP laws were introduced on 1 November 2017.[118]

In November 2023, the New South Wales Government announced laws that introduce new responsibilities across the building products supply chain.[119]

The Insurance Council supports enhanced measures to ensure that building products are safe and compliant. Such reforms can reduce risk of defects and structural damage that can pose danger to the strata community and improve the insurability of buildings.

Independent Construction Industry Rating Tool

In NSW, there exists an industry-led market surveillance tool, the Independent Construction Industry Rating Tool (iCIRT) to assist consumers in choosing well-rated building professionals including home builders, property developers, certifiers, designers, architects, engineers, consultants and development managers. Building professionals can request an iCIRT star-rating by undergoing an "*independent and rigorous review process*" and only businesses that receive a three gold-star rating or higher appear on the registry that is made accessible to consumers.[120] This means if a business does not appear on the registry, it either was unable to demonstrate its reliability or did not choose to undergo the review process. There is currently limited evidence at this stage to assess the efficacy of this tool, but tools of this nature could be useful in improving consumer confidence in building professionals.

Case Study: Lacrosse Apartments

The Lacrosse apartments fire in November 2014 had alerted Australians to the fire safety issues associated with combustible cladding, particularly in relation to high-rise residential and commercial buildings. Such a hazard jeopardises the safety of residents and many buildings that were identified with combustible cladding have experienced increases in premiums to reflect the higher risk, until rectification has been undertaken. The Lacrosse apartment incident highlights the severe consequences of non-compliance with the NCC and poor community outcomes.

More broadly, there is no consistent approach to addressing combustible cladding across State and Territories. For example, the Victoria and New South Wales Governments have separately established

[118] Queensland Building and Construction Commission. 2024. Regional action to increase safety and awareness of non-conforming building products. Date accessed: 20 November 2024

[119] New South Wales Government. 2023. New laws to restore trust and integrity in building Date accessed: 20 November 2024

[120] NSW Building Commissioner. 2023. New South Wales Government. Restoring confidence in the construction industry using iCIRT to rate building professionals Date accessed: 20 November 2024

programs that seek to reimburse, co-fund or grant interest-free loans to assist strata complexes in the replacement of cladding, subject to eligibility.[121]

The Queensland Government amended the *Building Regulation 2006* to add new laws to address safety concerns regarding combustible cladding, which took effect from 1 October 2018.[122] It then established the Safer Buildings Taskforce in 2019 to oversee the ongoing assessment and rectification of combustible cladding materials on QLD buildings until 2023 but did not impose a deadline for private buildings owners to undertake rectification works.[123]

Case Study: Imperial Towers

In 2023, an enforceable undertaking between the NSW Building Commissioner and a developer in receivership will allow nearly 100 people who purchased defective apartments in a Western Sydney development, to have their deposits returned and contracts rescinded.

The developer will need to fix the defects and report any defects that emerge in the next 10 years to future buyers. The apartments cannot be sold again for 10 years but they will be made available to the rental market to boost housing supply.[124] The off-the-plan purchasers of the apartments can now avoid further stress and legal costs associated with serious defects had Government not intervened.[125]

The undertaking comes as good news to consumers and is intended to serve as a deterrent for creditors to lend to risky developers.[126] However, the importance of strengthened audit programmes for construction work and accreditation of building professionals should not be overlooked.

Recommendation:

10. Governments across the country should explore other laws and initiatives, beyond those recommended in the 2018 *Building Confidence Report*, to improve consumer confidence in the safety and quality of building materials and reliability of building professionals.

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[121] New South Wales Government. 2023. Replace flammable cladding through Project Remediate Date accessed: 20 November 2024; State Government of Victoria. 2021. Cladding rectification funding guidelines Date accessed: 20 November 2024

[122] Building and Other Legislation (Cladding) Amendment Regulation 2018; QLD Government. 2024. Managing combustible cladding in Queensland Date accessed: 20 November 2024; Queensland Building and Construction Commission. 2024. Safer Buildings. Date accessed: 20 November 2024

[123] Queensland Building and Construction Commission. 2024. Safer Buildings. Date accessed: 20 November 2024

[124] Joanne Vella. 2023. The Daily Telegraph. Parramatta: Developer agrees to fix defects at Imperial apartment block at Hassall St. Date accessed: 20 November 2024

[125] Renee McKeown. 2023. The Urban Developer. Defective Sydney Towers to Be Fixed, Put to BtR Market. Date accessed: 20 November 2024

[126] Amy Greenbank. 2023. ABC News. Buyers of defective Imperial Towers apartments in Sydney allowed to break contracts, recoup deposits in 'radical' first. Date accessed: 20 November 2024

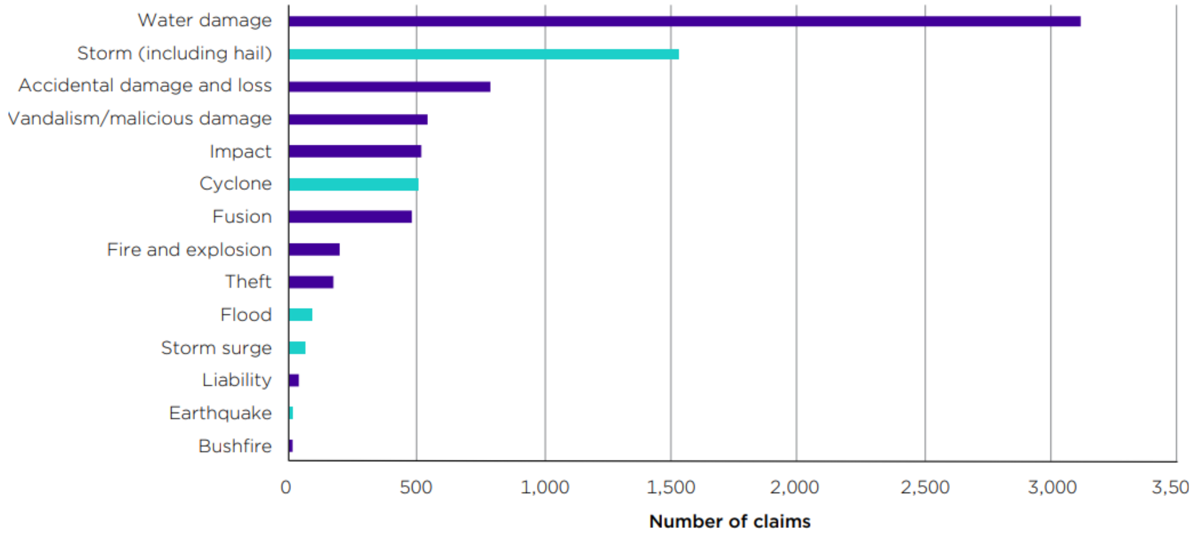
Risk Mitigation

Maintenance of Aged Buildings

A backlog of essential maintenance would build up when the owners' corporation of a strata schemes tries to minimise expenditure on maintenance and repairs.[127] Owing to limited regulation of building repairs, particularly for less complex works, the maintenance gap can be exacerbated by the skill level and qualifications of tradespeople as well as the materials used. Poor oversight and decision-making during construction can also result in "*inadequate information to guide the future maintenance of safety systems in buildings*".[128]

An owners corporation has the responsibility of decision-making for maintenance and repairs, and determining the amount and frequency of strata levies payable by lot owners. Sound maintenance and repair decisions address risks of wear and tear and ensure that building defects are addressed in a timely manner.

Figure 9: Number of claims by claim cause for strata products in northern Australia, 2008-09 to 2017-18



Source: ACCC. 2020. Northern Australia Insurance Inquiry - Final Report. Page 412.

The 2020 *Northern Australia Insurance Inquiry Report* highlighted that between 2008-09 to 2017-18, water damage caused the highest number of claims, followed by storm, accidental damage and loss, and vandalism (Figure 9).[129]

The severity and frequency of water or storm damage could be reduced through appropriate maintenance and repair, although it is unlikely to fully mitigate the damages from extreme weather events. Appropriate maintenance and repairs should be viewed as a form of risk mitigation and a preventative measure to help minimise damages that may otherwise be exacerbated by pre-existing defects, or wear and tear.

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127 Jimmy Thomson. 2022. Australian Financial Review. 'End-of-life' older apartment blocks are strata's new challenge. Date accessed: 20 November 2024

128 Prof Peter Shergold AC and Bronwyn Weir. 2018. Department of Industry, Science and Resources. Building Confidence: Improving the effectiveness of compliance and enforcement systems for the building and construction industry across Australia. Page 4.

129 Australian Competition and Consumer Commission. 2020. Northern Australia Insurance Inquiry - Final Report - 30 November 2020. Page 412

Insurance acts a safety net for strata owners when an unexpected loss or damage occurs, subject to the eligibility criteria for claim. If the owners corporation relies on its strata insurance, rather than ongoing maintenance and risk mitigation measures, to reinstate the condition of the strata complex, this could worsen the insurance claims history and cause premium rates to rise over time.

To help manage the predictability of strata insurance premium rates, an owners corporation can opt for a higher excess on their policy and manage smaller incidences at their own costs. In setting the level of excess, it is important that the owners corporation consider a realistic sum that can be paid using existing funds when an insured event occurs.

Recommendation:

11. Governments across the country should strengthen regulation and enforcement in relation to the statutory duty to maintain and repair buildings beyond the building warranty period through to the useful life of the property.

Responding to the Changing Climate

Building Resilience

With climate change driving an increase in the frequency and severity of severe weather events, there is a growing need for Australia's buildings to be more resilient. Improving resilience is a critical component of mitigating the risks arising from extreme weather events for households, including strata.

In June 2024, Building Ministers agreed that climate resilience is to be included as an additional objective of the ABCB in the 2025 iteration of its Intergovernmental Agreement, which is designed to provide the ABCB with *"…a clear mandate to develop future National Construction Code (NCC) requirements that reduce the impact of natural disasters on housing and other critical community facilities."*[130]

The NCC is based on three mandatory core objectives which are effectively to achieve health and safety, amenity and accessibility and sustainability outcomes.[131] Including resilience as an objective of the ABCB is an important step in the process and is a necessary precursor to necessary amendments to the next iteration of the NCC and its supporting standards.

The NCC is updated every three years based on required regulatory practices, industry research, public feedback and policy directions from government between publishing cycles.[132] The next version of the NCC, scheduled for 2028, needs to amended and updated to embed the principle and definition of resilience, and to explicitly require the need for new buildings exposed to the potential for extreme weather events, to be subject to more stringent construction requirements to make them more resilient.

A report for the Insurance Council by the CIE in 2023 shows the significant cost benefits of strengthening the resilience of new buildings in Australia, particularly given the increased likelihood of more severe and frequent extreme weather events in the future. The report found extreme weather events are costing Australian homeowners approximately $4 billion a year, highlighting the need for greater action to future proof Australia's resilience in the face of worsening bushfires, cyclones and

[130] Department of Industry, Science and Resources. 2024. Building Ministers' Meeting: Communiqué June 2024. Date accessed: 20 November 2024

[131] Insurance Council of Australia. 2022. Building a more resilient Australia: Policy proposals for the next Australian Government. Page 12

[132] National Construction Code. Lifecycle of the NCC. Date accessed: 20 November 2024

floods. The annual building related costs are estimated to be around $2 billion per year for cyclones, $1.475 billion per year for floods and $486 million per year for bushfires. This cost includes rebuilding or repairing buildings damaged from extreme weather events, the cost of replacing and repairing home contents, and disruption costs including temporary accommodation and impacts on employment. These building related costs (i.e. rebuilding/repairing homes, replacing/repairing home contents, displacement) are expected to more than double to around $8.7 billion per year by 2050.[133] The quality of builds, and the location of such builds, will need to be duly considered and improved to ensure that buildings are resilient enough to withstand the impacts of bushfires, cyclones and floods, and minimise the number of households that are displaced.

Analysis conducted by actuarial consultancy firm Finity for the Insurance Council found that a $232 million resilience investment in NSW over five years would deliver more than $5.6 billion in returns, an Return On Investment of 24. If all State and Territory Governments sign up to this $2 billion program it is projected to reduce financial, health and social costs to governments and households by at least $19 billion by 2050.[134]

Land-use Planning

As the risks associated with extreme weather events become more frequent and intense due to climate change, existing flood zones are likely to expand and expose more properties, as well as increasing the depth of floodwater in currently exposed areas. In addition, the pressure for new houses to be built in higher risk areas will grow as populations increase. The threshold of acceptable risk needs to be reconsidered and the consequence of flooding, not just the probability, taken into consideration.

Effective urban planning and resilience investment can significantly reduce the overall risk to individuals and properties, and lessen the expectation that building codes and standards will be able to make provision for buildings to withstand events for which it may not be economic for individual households to afford or offer the level of amenity occupants would expect to enjoy.

In December 2022, National Cabinet announced that planning ministers would develop a national standard for considering disaster and climate risk, stating that *“the days of developing on floodplains need to end”*.[135] The Insurance Council welcomes this renewed focus, however moving from general agreement to specific and unambiguous direction will require strong leadership and significant effort.

There has been some important progress at a state level to put this commitment into effect, including the New South Wales Government’s decision in late 2023 to not proceed with urban development in outer north-west Sydney due to its high risk of flooding.

QLD Strata Resilience Program

The Queensland Government introduced a $60 million Strata Resilience Program that aims to help body corporates located within 100 kilometres of the coastline from Rockhampton, north to the Torres Strait and west to the QLD/NT border improve the resilience of their strata properties against cyclones.[136] The Insurance Council welcomes strengthened resilience of strata buildings against disasters to reduce the cost to communities, Government and insurers in the long run and improve the insurability of high-risk strata buildings.

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[133] The Centre for International Economics. 2023. Insurance Council of Australia. Resilience, durability and the National Construction Code. Page 3, 47, 70 and 92.

[134] Insurance Council of Australia. 2023. A Stronger NSW – Policy recommendations for the next NSW Government. Page 18.

[135] Prime Minister of Australia. 2022. Meeting of National Cabinet. Date accessed: 20 November 2024

[136] QLD Government. 2024. About the Strata Resilience Program. Date accessed: 20 November 2024

Recommendations:

12. The National Construction Code and associated standards need to be updated and amended to embed resilience and to require more stringent construction requirements to ensure buildings are built to withstand more extreme weather events in the future.
13. The Australian Government should continue to partner with the insurance sector to target investment in resilience and mitigation measures that reduce risk and protect communities, such as levees and floodways.
14. The Australian Government and insurance industry should continue to collaborate via initiatives such as the Hazard Insurance Partnership to better understand future climate risk to support enhanced policy making and investment decisions, including hard infrastructure such as levees and floodways.
15. The Australian Government should work with state counterparts to establish a permanent relocation and buy-back scheme, funding local governments to purchase lots in a strata complex from those in the most extreme weather risk exposed properties. These programs should initially be targeted to low socio-economic areas to assist people most at need move out of harm's way.
16. Governments across the country should use planning powers to limit new development in areas prone to high risk from extreme weather events, such as flooding, bushfires, cyclones, and coastal hazards. The Insurance and banking sectors should be engaged early in the planning process, and consideration should be given to mandatory climate change risk assessments to identify these vulnerable areas. When developing regional plans, State and Territory Governments should prioritize areas with zero to low extreme weather risk for new development, taking into account the probability of hazards occurring and their potential impact on property and life.

Lithium-ion Batteries

The global demand for lithium-ion batteries is projected to increase almost sevenfold between 2020 and 2030, which is attributable to the rising popularity of road registered electric vehicles (EVs).[137] In parallel with the growing popularity of EVs, there is also significant growth in the use of e-bikes and e-scooters. The widespread adoption of e-scooters and e-bikes, also known as personal mobility devices (PMDs), has revolutionised urban mobility, offering convenient, environmentally friendly, and often cost-effective alternative to traditional transportation. However, the incorrect storage and use of lithium-ion batteries poses fire risk and varying severity of life and property safety risks to residents of a strata complex.

As EVs in strata complexes becomes more common, existing building infrastructure and EV charging stations will need to be appropriately maintained and upgraded.[138] When determining strata insurance premium, insurers may assess a range of risk factors including location of charging stations, theft and tampering, personal injury, product liability, potential fire and electrical hazards, installation and maintenance.[139] If property owners, developers or managers install EV charging infrastructure into new or existing properties, this is a material fact that should be disclosed to insurers and needs to be considered in insurance coverage.[140] It is recommended that insurers and their customers engage in comprehensive discussions to ensure adequate insurance coverage is provided and also discuss how to address potential risk factors, such as fixing outdated electrical wiring.[141]

The fire risk associated with lithium-ion batteries in items such as PMDs can be minimised by improving public understanding of the risks and hazards, including highlighting the situations where potential fire risk is increased.[142] The correct purchase, operation and maintenance of PMDs is also critical to minimise risk.[143]

The Insurance Council and its members have developed a set of principles for users of personal mobility devices to minimise risk to both them and the built environment.[144] These include:

- purchasing goods from a reputable brand from a ‘bricks and mortar’ supplier
- ensure there is sufficient air flow around lithium-ion batteries when charging.
- store batteries and lithium-ion products in cool, dry places and out of direct sunlight, including while charging.
- avoid using batteries, products or chargers that are damaged, overheating or showing signs of failure such as swelling, leaking or venting gas.
- check the charger being used is suitable for the product being charged.

It is worth noting that many smaller strata complexes, which make up a large proportion of schemes around the country, do not have separate and secure storage facilities. As such, lot owners may continue to store and charge PMDs within the confines of their lots to mitigate theft risk. Any by-laws or regulation put in place regarding PMD safety may impose additional costs for owners corporations to enable lot owners to comply with storage or charging requirements.

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137 Statista Research Department. 2023. Lithium-ion batteries – statistics & facts Date accessed: 20 November 2024

138 Strata Community Association. 2023. Electric Vehicles in Strata Phase 2: Challenges. Page 34.

139 Insurance Council of Australia. 2024. Charging Ahead: Electric Vehicles & Insurance. Page 10.

140 Ibid. Page 10

141 Ibid. Page 10

142 Insurance Council of Australia. 2023. Briefing note: Managing fire risk from electrified transport in residential buildings. Page 4.

143 Ibid.

144 Ibid. Page 5

Other Costs to Owners Corporations

State Taxes

State and Territory Governments collect taxes that are charged proportionately to insurance premiums, so increases to insurance premiums have a flow-on impact on the level of taxes being charged on insurance. Consequently, state taxes have the effect of compounding the costs borne by insurance customers.

In 2020, 165,554 Australian owners corporations paid $1.08 billion in insurance costs, of which nearly $230 million were attributable to duties, levies and taxes.[145] Such taxes include the Emergency Services/Fire Services Levy (in NSW and TAS only), stamp duty, and goods and services tax, which add to the financial burden of consumers who purchase insurance.

In 2024-25, the NSW Emergency Services Levy and Stamp Duty alone will raise close to $2 billion from insurance policyholders.[146] The Emergency Services Levy adds up to 40 per cent to the cost of insurance for consumers.[147]

The Insurance Council welcomes the announcements made by the New South Wales Government to reform the funding of levies used to fund emergency services.[148]

The 2020 *NSW Review of Federal Financial Relations* chaired by former Telstra Chief Executive Officer David Thodey found:

"Insurance taxes are inefficient: they drive up premiums and discourage consumers from adequately insuring. There can be serious human and social consequences from what has been dubbed 'a national crisis of under-insurance', especially for a country that relies heavily on insurance markets for recovery from disasters."[149]

The Henry Review also highlighted that Australia retains a range of inefficient taxes on consumption, including insurance taxes and recommended a broad-based cash flow tax that is applied on a destination basis to replace insurance taxes.[150]

Further consideration should be given by all State and Territory Governments to reforming the application of stamp duty to insurance products, as has been done in the ACT as this would immediately reduce the cost of insurance paid by 9-11% per cent.[151]

Recommendation:

17. Governments across the country should consider the replacement of insurance taxes such as stamp duties and emergency services levies, with alternative revenue sources that are more equitable and efficient.

[145] Nicole Johnston (lead author) with Adrian Lee, Sagarika Mishra, Karen Powell, Mark Bowler-Smith and Ambika Zutshi. 2021. Deakin University. A data-driven holistic understanding of strata insurance in Australian and New Zealand. Page 2.

[146] New South Wales Government. 2024. 2024-25 NSW Budget. Chapter 4, page 7.

[147] Insurance Council of Australia. 2023. A Stronger NSW - Policy recommendations for the next NSW Government. Page 3.

[148] Tamsin Rose. 2023. The Guardian. Chris Minns vows to scrap NSW emergency services levy to reduce insurance premiums. Date accessed: 20 November 2024

[149] Mr David Thodey AO, Ms Jane Halton AO PSM, The Rt Hon Sir Bill English KNZM, The Hon John Anderson AO, Professor Anne Twomey and Professor John Freebairn. 2020. NSW Treasury. Federal Financial Relations – Final Report. Page 67

[150] Ken Henry, Jeff Harmer, John Piggot, Heather Ridout, Greg Smith. 2009. Australia's Future Tax System - Final Report – Part 1. Page 51 and 91

[151] Queensland Revenue Office. 2023. Insurance duty rates. Date accessed: 20 November 2024; Revenue NSW. Types of insurance. Date accessed: 20 November 2024

Insurance Council of Australia

The Insurance Council of Australia is the representative body for the general insurance industry of Australia. Our members represent approximately 90 per cent of total premium income written by private sector general insurers, spanning both insurers and reinsurers. General insurance has a critical role in the economy, insulating individuals and businesses from the financial impact of loss or damage to their insured assets. Our work with our members, consumer groups and all levels of government serves to support consumers and communities when they need it most. We believe an insurable Australia is a resilient Australia – and it's our purpose to be the voice for a resilient Australia.

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