THE INDEPENDENT VOICE OF STRATA OWNERS

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Select Committee on the Impact of Climate Risk on Insurance Premiums and Availability
PO Box 6100
Parliament House
CANBERRA ACT 2600

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Dear Committee

Impact of Climate Risk on Insurance Premiums and Availability – Senate Select Committee

Strata is the fastest growing form of residential property ownership in Australia. Over half the new dwellings to be built in our metropolitan areas over the next decades will be strata titled. The growth of this sector raises increasingly important questions over property ownership and governance.

The Owners Corporation Network of Australia Limited (OCN) was established in 2002 and is the independent peak consumer body representing the rights and interests of residential strata and community title owners and residents. OCN is a full member of the Consumers' Federation of Australia.

Insurance, as one of the largest costs borne by owners corporations, has long been one of those critical advocacy topics and increasingly so in recent years with **an estimated 82 per cent[1] rise in average premiums** over the past five years. We stress that this is an average – strata schemes that are more vulnerable to climate change have experienced many times that level of increase.

This submission deals with the unique characteristics of the strata insurance market. A key factor is the interaction between compulsion – under-insurance or self-insurance is not a legal option for strata schemes – and a large and growing concentration of market power. **The climate change narrative has masked an escalation in intermediary fees, commissions and profits.** This continues to drive premiums higher than can be justified by climate-related insurance trends in direct claims costs or international reinsurance markets.

As the key consumer voice in strata insurance, OCN welcomes this Inquiry and is happy to engage with the Committee on any aspect of this submission, and to develop solutions to the issues identified.

Sincerely
Karen Stiles
Executive Director

[1] CHU presentation, Insurance News Strata Seminar, May 30, 2024

History

The strata insurance market has evolved alongside strata title property in its various legal forms across Australia. The key difference to other property insurance classes is **compulsion** – all states and territory legislation mandates that the governing owners corporation or its equivalent insure for:

- Full building replacement value, including associated fees and debris removal, and
- Public liability cover.

The public policy rationale for compulsion is a simple one of moral hazard in collective ownership governance. It eliminates the risk of one owner or group of owners, with the means to self-insure, taking insurance decisions that expose other owners to what amounts to an unlimited joint and several legal liability. Strata insurance is required as mortgage security by most lenders, making it difficult to buy or sell an apartment in an uninsured building without it.

A brief timeline of key market developments:

1961 NSW enacts the world's first strata property title system. The concept was soon embraced by all other Australian states and territories and adapted internationally.

1978 Community Housing Underwriting – CHU – launched as the first specialist strata insurer, bundling property and liability covers into a single policy. Its success was underpinned by commission-based distribution through the emerging strata management industry.

1992 The Sydney Morning Herald exposes "hidden" insurance commissions paid to a strata management firm, Alliance Strata Management[2]. Resultant litigation was inconclusive but did bring the ethical and fiduciary problems of commission income for strata managers under scrutiny for the first time.[3]

2004 QBE acquires CHU, strengthening its capital support and strengthening the foundations of its ongoing market dominance.

2011 Cyclone Yasi cuts a swathe through Far North Queensland with widespread property damage. The event triggered a wholesale exodus of insurers after unsustainable losses and an exponential increase in premiums for owners corporations. Vulnerable buildings were unable to obtain cover at any price. It was the first significant example of market failure where compulsory strata insurance became unavailable or unaffordable.

2015 QBE sells CHU to the insurance broking group Steadfast, alongside CHU's specialist broking arm Body Corporate Brokers. QBE enters into a 10-year exclusive underwriting agreement as part of the deal.

NSW enacts legislation requiring strata managers to disclose insurance commissions and training benefits and to obtain three quotes for all insurances.

2017-18 Steadfast takes control of two more major strata brokerage groups, Whitbread[4] and BAC[5], as well as the Axis strata underwriting agency, backed by Chubb Insurance.

[2] Unrelated to a firm currently trading as Alliance at Forster, NSW. The original Alliance was subsequently sold and rebranded as Body Corporate Systems – BCS – now the major brand of Australia's largest strata management and strata services company, Prudential Investment Corporation of Australia (PICA).
[3] From The Ground Up: The Story of Strata Title in NSW by John Coleman. Pp 79-84. ISBN: 9780646840161
[4] https://www.insurancenews.com.au/corporate/whitbread-acquisition-is-a-perfect-fit-says-steadfast
[5] https://www.insurancenews.com.au/corporate/steadfast-takes-stake-in-strata-specialist

2021 Steadfast buys out the Coverforce broking group[6], the main drivers of an emerging joint venture, profit-sharing business model with strata management companies that avoid disclosure of commission income.

2022 A second listed broking group, AUB, acquires Strata Unit Underwriters (SUU) from IAG, adding it to the Chubb-backed Longitude Insurance agency previously supported by Suncorp's Vero brand.
Cyclone Reinsurance Pool commences operation, with all strata insurers required to join by end 2024.

2024 Steadfast takes a controlling interest in Sure Insurance[7], launched in 2019 to specialize in the climate-impacted Queensland residential market including strata.

ABC's 7:30 Report[8] exposes excessive fees and commissions flowing to a major strata management firm, NetStrata, through a related broking arm. NSW Fair Trading and Strata Community Association (NSW) are investigating potential licensing and ethical breaches.

Today's Market

Strata insurance is a national market with no significant variation in compulsory insurance requirements across states and territories. Regulatory responsibility is shared by the Australian Prudential Regulatory Authority (APRA), Australian Securities and Investment Commission (ASIC) and Australian Competition and Consumer Commission (ACCC) with policy oversight by Treasury.

The compulsory aspect of strata insurance means it could be considered a form of state insurance, like motor liability or workers compensation, but states have shown no inclination to intervene in any significant way in the operation of the market.

Yet there has long been a reluctance at the federal level to take explicit ownership of strata insurance regulation despite this unique feature. Strata is one of Australia's largest and fastest growing asset classes, but APRA does not have a definitive position on strata insurance solvency requirements, instead aggregating it with home insurance and other lines such as travel insurance, small business and industrial special risks.

ASIC views strata as a "very niche"[9] area of financial services regulation. The landmark Quality of Advice Review also failed to take a position on the strata insurance value chain:

> *For the purpose of the Review, I have not specifically considered the relevant arrangements for strata insurance (or strata managers), as they are not regulated under Chapter 7 of the Corporations Act. However, I think that further consideration of the remuneration arrangements for strata insurance is warranted.*[10]

ACCC did not consider the unavailability of strata insurance worth any detailed consideration in its exhaustive investigations into the Far North Queensland insurance market:

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[6] https://www.insurancenews.com.au/corporate/steadfast-completes-coverforce-acquisition
[7] https://www.insurancenews.com.au/corporate/steadfast-buys-sure-insurance-completes-280-million-share-placement
[8] https://www.abc.net.au/news/2024-03-21/a-world-of-hidden-charges:-strata-company-insiders/103617944
[9] Keynote address by ASIC Commissioner Sean Hughes, ASF Conference, Sydney, 18 November 2019
[10] Quality of Advice Review Final Report December 2022 Michelle Levy Chapter 9.6.1 p 169

> *We did not consider strata insurance in our analysis of non-insurance. Unlike home and contents insurance, strata insurance is required by law in each state and territory. While we have heard instances of strata buildings being without insurance cover, this is a relatively rare occurrence and may only be temporary.*[11]

In fact, the problems of unavailability and unaffordability have become entrenched in Far North Queensland over the past decade.[12] The Cyclone Reinsurance Pool should offer some relief, but it is early days[13] and insurers have been managing expectations. There is an increasing focus on construction defects and maintenance with insurers continuing to actively avoid poorer risks.
Elsewhere in Australia, the same focus on defects and maintenance is making strata insurance less affordable for more and more schemes, and in extreme cases availability is becoming problematic. In some instances the main cause is directly climate related, for example exposures to flood, storm surge or other weather events. More often, it is due to other risk factors such as unresolved defects or maintenance issues, for example water leaks, non-compliant structures or fire safety measures, that increase vulnerability to a range of risks. One estimate put premiums for buildings with any form of defects to be 17 per cent higher on average.[14] We believe this is conservative and does not take account of the refusal to quote in the majority of instances.

Whatever the underlying cause, more and more buildings across Australia are faced with the same difficulties in finding and paying for insurance as the long-suffering owners of Far North Queensland.

Data

The evidence for this is largely anecdotal as there is no aggregated data available on strata insurance costs or coverage across Australia. The ACCC collected premium income and a sample of quotations for its North Queensland report but did not test its assumption that non-insurance was rare.

OCN's experience does not disagree with that assumption relative to home insurance, which is not compulsory. That said, there are an unknown, but significant, number of inactive owners corporations and little or no enforcement of insurance at state level.

NSW's Strata and Property Services Commissioner has sought data on the extent of premium stress from the Insurance Council of Australia, so far without success. The holders of the data, in the main, are not members of the Insurance Council as they are underwriting agencies (represented by the Underwriting Agency Council) or brokers (National Insurance Brokers Association).

Significantly, strata underwriters and brokers do not contribute to the Insurance Council-sponsored *Insurance Statistics Australia*[15] that acts as a clearing house for underwriting and claims data and supports pricing by most of Australia's major insurers. This database also supports important research such as the Actuaries Institute breakdowns of the impact of climate and non-climate risk factors on premiums.[16] No equivalent independent analysis is currently possible for strata insurance.

Competition

[11] Northern Australia Insurance Inquiry Final Report November 2020 Chapter 12.1 p266
[12] https://www.insurancenews.com.au/local/cyclone-pool-not-resolving-availability-issues-for-higher-risk-strata
[13] https://www.accc.gov.au/media-release/insurance-prices-in-northern-australia-remain-high-while-cyclone-reinsurance-pool-in-transition
[14] CHU presentation, Insurance News Strata Seminar, May 30, 2024
[15] https://insurancestats.com.au/
[16] Actuaries Institute Home Insurance Affordability Update – August 2023

In this regulatory vacuum, the biggest change in the market over the past decade has been the concentration of ownership of underwriting and distribution under a single controlling entity, the ASX listed broking group Steadfast. This development is not widely known or appreciated outside professional strata circles because it has evolved gradually through an aggregation of multiple brands and entities that continue to appear to operate independently. Nor is the extent of Steadfast's dominance readily apparent from its own market disclosures.

However five of the top six, and eight of the top 12 strata brokerages are now wholly owned by Steadfast or part of their network.[17] Steadfast enjoyed a **total market share of 69 per cent and an 81 per cent share of the broker market in 2022-23.** This will have increased further, particularly in Queensland, with the recent acquisition of Sure Insurance.

Austbrokers, the only non-Steadfast strata broker in the top six, is owned by AUB Group which is replicating the integrated underwriting and broking model with the acquisition of the Longitude and SUU underwriting agencies.

For Steadfast, supply chain integration extends beyond insurance underwriting and broking. It is a major shareholder in listed building services group Johns Lyng, which in turn is a major provider of claims services to CHU[18], and the controlling shareholder of Australia's second largest strata management agency group, Bright and Duggan.[19]

CHU also operates under more than one brand. It also has a no-frills strata package under the Flex Insurance brand and provides an exclusive insurance product under a separate brand[20] through three Steadfast brokers and one non-Steadfast broker to Australia's clients of largest strata management group PICA.

Details of this commercial arrangement are unclear and not disclosed to the 200,000 PICA clients who can receive the three different quotes required under NSW law from the one insurer through a broker owned by the same company.

The largest remaining independently owned underwriting agency, Allianz-backed Strata Community Insurance, does not have a broking arm and must operate mainly through broking firms with the same owners as its major competitors, CHU or SUU.

Under the current federal government, there has been a renewed focus on competition policy with important reforms planned to take effect from 2026.[21] The consultation process identified that more than half of all mergers and acquisitions escape scrutiny. A mandatory notification regime will introduce a new dual test – monetary value and market concentration. Notably, it will also cover rolling or creeping acquisitions that individually may not be notifiable.

> *This is a targeted measure to address concerns that some businesses are engaging in anti-competitive roll up strategies that increase prices and reduce quality and choice for consumers*[22]

The high level of concentration of market power in strata insurance, of course, predates these reforms. Serial acquisitions by Steadfast and more recently AUB do not appear to have been notified or approved by

[17] Battlefront: Strata FY23 - Macquarie Equity Research 19 September 2023
[18] https://www.insurancenews.com.au/corporate/johns-lyng-secures-restoration-contract-with-chu
[19] https://www.insurancenews.com.au/daily/johns-lyng-ups-stake-in-bright-duggan
[20] https://picagroup.com.au/community-sure/
[21] https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/media-releases/merger-reform-more-competitive-economy
[22] Merger Reform: A Faster, Stronger and Simpler System for a More Competitive Economy. Treasury 10 April 2024 p9

the ACCC. It is therefore moot to consider whether they would have passed any current or future test of substantial lessening of competition. We urge the Select Committee and the ACCC to further explore this question.

Conflicts of Interest

Concerns about the level of competition extend to the conflict of interest when the same entity owns both the underwriting agency, which acts for the insurer, and the insurance broker, who acts for the insured. An underwriting agency's profit is derived from an up-front fee when writing the policy and a later profit share mechanism. A broker includes a commission or fee in the final premium.

When the two parties are related, there are clear incentives and opportunities to optimize the collective group's profitability through pricing and risk selection, particularly where there is significant market power. This could create at least a perception of a conflict inconsistent with their respective fiduciary obligations as agents, including the best interests duty[23] of licensed brokers and the respective Codes of Conduct for underwriting agencies[24] and brokers[25]. How this conflict is managed within the Steadfast or AUB groups is not dealt with in any of their public disclosures.

What is clear is that the acquisition of CHU in 2015 triggered a fundamental shift in market dynamics. Previously, the majority of policies were sold directly or through strata managers. In 2014-15, about 60 per cent of strata premiums were paid directly to the underwriter rather than through brokers. By 2022-23, this had dwindled to 15 per cent.[26]

Recent trends towards larger and more complex developments would be expected to increase the market share of brokers over time. Brokers historically became involved where there are additional complexities such as lifts, pools, pumps and retail or commercial tenants, building defects, claims histories or unresolved maintenance or fire safety compliance issues.

But the average strata scheme remains less than 10 lots in size and is more than 20 years old.[27] These are usually relatively generic risks and only marginally more complex than a large standalone house. Under the progressive concentration of supply chain ownership under Steadfast, however, most of these schemes now also insure through a broker. This situation has become entrenched in the market due to some deskilling of strata managers in managing insurance and hollowing out of underwriting agency direct distribution capability.

The other key event in 2015 was a regulatory change in NSW, which accounts for half the national strata insurance market, to require three quotes and disclosure of commissions by strata managers. This encouraged time-poor strata managers to outsource the task of gathering quotations to brokers, who in turn saw opportunities to build deeper and more lucrative commercial relationships. In other words, they were incentivised to reward strata management companies for their business.

This has taken a number of forms, most notably a model pioneered by the Coverforce broking group – acquired by Steadfast in 2021 – where strata insurance is sourced through a joint venture structure that disguises as profit shares the full extent of income received by the strata manager and broker. It has also seen a steady rise in total commissions and fees as brokers and management companies shared the spoils.[28]

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[23] https://asic.gov.au/regulatory-resources/financial-services/giving-financial-product-advice/acting-in-the-client%CA%BCs-best-interests/

[24] https://uac.org.au/wp-content/uploads/CODE-OF-CONDUCT-2023.pdf

[25] https://www.niba.com.au/sites/default/files/content-files/Code%20of%20Practice_251023_Final.pdf

[26] Battlefront: Strata FY23 - Macquarie Equity Research 19 September 2023

[27] https://cityfutures.ada.unsw.edu.au/documents/717/2022_Australasian_Strata_Insights_Report.pdf

[28] Battlefront: Strata FY23 - Macquarie Equity Research 19 September 2023

Conflict of interest was the subject of a major review conducted by insurance industry luminary John Trowbridge[29] whose three reports in 2022 and 2023 dealt exhaustively with the broker-strata manager relationship. The key recommendation was a standardised disclosure model now being rolled out as practice guides by Strata Community Association and NIBA.

The Trowbridge reports also proposed unwinding joint venture-type intermediary arrangements but there has been no action on that front. The third report identified the need for more capacity in the market but made no specific recommendations. Nor did it touch on upstream conflicts of interest or the concentration of ownership.

We note without comment that this review, entitled Independent Review of Strata Insurance Practices, was initiated and funded by Steadfast. Managing Director and CEO, Robert Kelly, wrote in the forward to all three volumes:

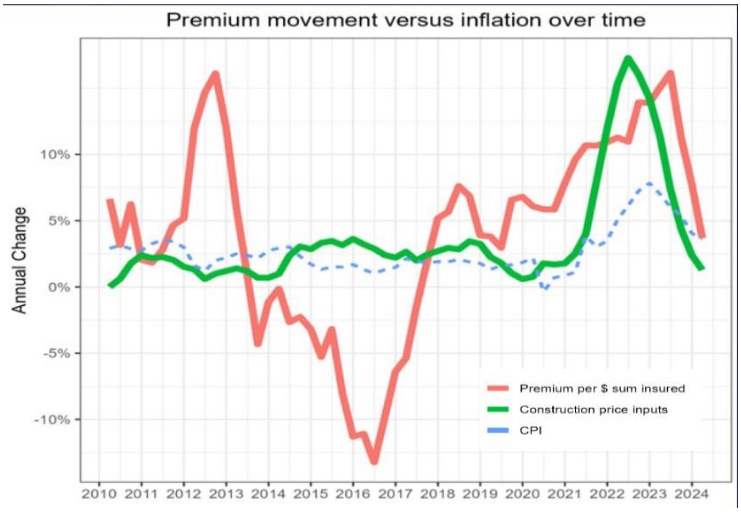
> *Steadfast Group's interest in this project is commercially relevant to the Group's interests in both specialist brokers and specialist underwriting agencies active in strata insurance but it goes beyond the Group's direct interests. Steadfast believes that the market is to some extent dysfunctional through its value chain from customer (lot owners) to strata managers to brokers to underwriting agencies to insurers. Most of the issues under question have arisen gradually through the historical evolution of the market.*
>
> *Steadfast wishes to see these issues thoroughly investigated, in conjunction with experts in the Steadfast sphere of interest and other stakeholders including strata managers, owners of strata properties, brokers and underwriting agencies not in the Steadfast camp.*
>
> *The overriding goal is to identify meaningful initiatives aimed at overcoming structural issues that are of concern to both the Steadfast Group and many other participants in this market.*

Profitability and affordability

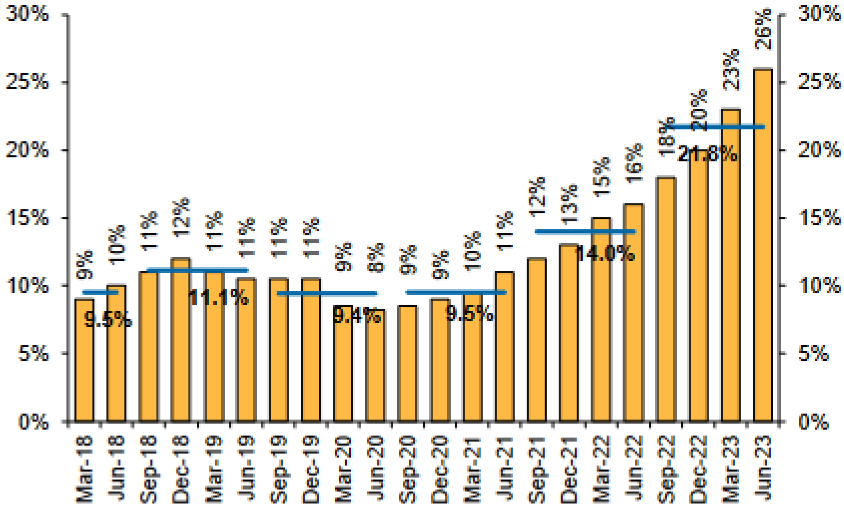
As a diverse listed intermediary group, Steadfast operates across a range of specialty lines and does not report in any detail on the performance of its strata products and services. Nonetheless, analysts[30] have gleaned that, **with just seven per cent of the group's gross written premium (GWP) in 2020, strata generated 24 per cent of fee and commission income and 22 per cent of earnings**. Steadfast's 2023 annual report noted that strata's share of GWP had risen to 10 per cent, implying an even greater contribution to group profits.

This is unsurprising given the compounding double digit annual increases in strata premiums over the past five years. The total premium pool is estimated at $1.8 billion in 2023-24, almost double the $940 million paid by owners corporations in 2018-19. While climate change may be a key driver of increased risks, the absence of competition means there is little pressure to soften the blow to owners by shaving percentage-based fees and commissions paid to intermediaries.
The limited sources of independent data and objective analysis makes the impact difficult to quantify. The following graph[31] maps the trend in risk premiums over the past 15 years against a key driver of claims expense, construction costs.

[29] https://johntrowbridge.com.au/strata-insurance/
[30] Battlefront: Strata FY23 - Macquarie Equity Research 19 September 2023
[31] CHU presentation, Insurance News Strata Seminar, May 30, 2024



Note the premium spike after Cyclone Yasi and the downward correction, which ended soon after Steadfast acquired CHU in 2015 and was unrelated to any movement in construction costs.
Also note that the above graph includes the insurer's risk premium only, before the commissions, fees and charges added by brokers and/or strata managers. Another graph shows consistently faster growth of final premiums paid than risk premiums[32]:



In other words, the available evidence suggests that **growth in intermediary commissions, fees and charges has fuelled rather than mitigated the impact of rising climate-related risks on final insurance costs for strata owners.**

The dynamics of insurance markets generally, and strata insurance specifically, were documented in depth in the ACCC's Northern Australia Insurance Inquiry Final Report in November 2020. It highlighted the avoidance of bad risks, resulting in a price spiral where insurers compete to avoid certain types of buildings, or increasingly narrow their underwriting criteria and decline to quote.
However the ACCC report did not deal with the additional effects of market concentration. In strata, CHU has been the dominant provider for almost half a century and enjoys by far the deepest claims data set, market knowledge and underwriting experience. It can price with greater precision and confidence than any other market participant.

Since being acquired by Steadfast, CHU's market share has remained steady at about 50 per cent while it focused on profitability by tweaking underwriting. Given Steadfast's dominance of the downstream

32 Battlefront: Strata FY23 - Macquarie Equity Research 19 September 2023

intermediary channels, CHU appears to be able to do so without any serious competitive threat to its target market of good risks.

Less competition for CHU's non-preferred risks such as larger strata buildings creates pricing upside for the other Steadfast agencies (mainly Axis) and their remaining competitors. It also increases the market power of Steadfast brokers as gatekeepers to specialty insurers, typically global underwriters with the geographical diversification to take on buildings that are physically larger or more climate-exposed. At the right price.

For buildings with defects or poor claims history unable to obtain a quote in the domestic market, brokers will go offshore where some Lloyds syndicates are willing to take on bad risks – usually at an astronomical price.

In this environment the customer – ultimately individual strata owners, through their owners corporations – is almost powerless. Compulsory insurance means they must pay whatever is asked. Smaller buildings can shop around but will often find that there is no difference in dealing with an underwriting agency or through a broker.

Owners can apply some leverage through strata managers who do operate in a more competitive market and will usually try to negotiate a better deal when pressured, despite the obvious conflict of interest in many of their broker relationships. Brokers value that relationship too and will usually respond in kind.

But challenging an insurance quotation requires a level of financial literacy and the effort to look behind quarterly levy notices. And changing strata managers has its own challenges with multi-year contracts the norm. Other than in extreme cases where owners are faced with very large year-on-year premium rises, this level of engagement is relatively rare, particularly where most owners are investors - by far the largest group of strata owners.[33] Incremental increases in levies can simply be passed on in rents in today's housing market.

The Way Forward

Addressing the Select Committee's specific terms of reference:

(a) the unaffordability of insurance in some regions due to climate-driven disasters;

All strata insurance market participants should be required to contribute to a national premium and claims data pool for empirical measurement and independent monitoring of the impact of different risk types, similar to home insurance. This requirement should explicitly extend to intermediaries – underwriting agencies and brokers – as well as insurers.

(b) the unavailability of insurance for some people due to climate-driven disasters;

We strongly believe that the reaffirmation of compulsory insurance as a fundamental pillar of the strata property title system should be the foundation of any reform agenda. An important consideration should be the role of compulsory insurance in financial system stability by securing the mortgage exposure of Australia's housing lenders.

Federal agencies should work with state agencies to develop appropriate mechanisms to quantify the extent of non-compliance with compulsory strata insurance. This should be the starting point for more active ongoing monitoring and enforcement, as well as an investigation into the design, funding, cost and

[33] https://cityfutures.ada.unsw.edu.au/documents/717/2022_Australasian_Strata_Insights_Report.pdf

benefits of a safety net mechanism similar to nominal insurer arrangements for other compulsory insurances.

(c) the underlying causes and impacts of increases in insurance premiums;

In addition to our recommendation under *(a)*, the ACCC or another appropriate body should investigate the growth in intermediary and distribution margins and the extent, if any, of the relationship to climate, other underlying insurance cost drivers or growing market power.
This should particularly focus on any anti-competitive practices, incentives or barriers to entry.
ASIC should also consider those conflicts - and appropriate disclosure and consent requirements - that arise where there is common ownership of underwriting agencies and brokers, an area not dealt with by the Quality of Advice or Trowbridge reviews.

(d) the extent to which increased climate risk is being priced into insurance products not exposed to climate-driven risks;

All strata properties are vulnerable to some form of climate risk, but the types and levels of exposure are often different to other property types. Relative vulnerability is often a function of apparently unrelated factors such as building defects due to failures in construction or maintenance, which undermine resilience and increase the risk of damage from storms, floods or cyclones.

Our recommendation under *(a)* will shed more light on whether insurance underwriting is accurately reflecting these risk differentials or influenced by other profit-driven factors.

(e) the distributional impact of increases in insurance premiums across communities, demographics and regions;

The lack of data on strata insurance costs and premiums makes it difficult to assess the distributional factors at work. We do know that reinsurance costs are driven by aggregate views of portfolio risk as a whole and it is up to individual insurers as to how they distribute those costs.

Bushfire, for example, is a major driver of reinsurance costs for property insurance generally, but the exposure in strata insurance is minimal. Strata properties, on the other hand, suffer from a different set of risk concentration pressures, particularly in coastal or flood prone areas, that have a major influence on insurer risk appetites and pricing.

Reinsurers see earthquakes as the greatest single risk factor for strata insurance due to the concentration of properties along the eastern seaboard and the rare, but not unknown, incidence of major seismic activity such as the 1989 Newcastle event. They are acutely aware of an emerging body of research[34] into the increased earthquake risks that may be associated with glacial melting due to global warming and pressure changes on tectonic fault lines.

There is a case for APRA to revisit the capital adequacy settings applicable for strata insurance with a view to working towards standalone measures that would more accurately quantify the specific risk and diversification factors. This will improve transparency and the diversification benefits may also attract more insurance capital and competition.

(f) the role of governments to implement climate adaptation and resilience measures to reduce risks and the cost of insurance;

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[34] https://phys.org/news/2023-11-global-warminginduced-sea-earthquake.html

As a starting point, governments at both national and state level need to recognise the critical importance of effective and efficient regulation of the strata services market as a whole, not just for insurance. Many of the market deficiencies identified in this submission can be directly attributed to regulatory failure, neglect or indifference.

At the national level, this means better co-ordination between the three national agencies responsible for insurance regulation and the relevant state agencies. It should also mean climate resilience or adaptation programs or incentives are targeted based on a national view of vulnerability, not just regionally.

States share responsibility for climate vulnerability beyond short-sighted planning in the past that has exposed communities to climate risk. Lack of effective oversight also contributed to the current epidemic of building defects – waterproofing failures being the most common - that amplify the impact and cost of extreme weather events on strata communities across Australia.

The Shergold-Weir Building Confidence report in 2018[35] laid out a credible pathway to improving resilience in Australia's residential building stock and NSW has led the way in aggressively reforming the construction sector. The response from other states has been patchy and there is more to do.

No state has yet come to grips with an effective mechanism to enforce the statutory obligations on owners corporations to maintain strata buildings in good order and repair. It is another area that would benefit from more national leadership and support.

(g) how the pricing of risk from climate-driven disasters can be better redistributed across the economy; and

While urging all levels of government to focus on improving access to and reducing the costs of strata insurance, OCN would caution against any move towards direct regulation of premiums. This is likely to have perverse impacts by discouraging much-needed new capital and dampening price signals to improve resilience and reduce risk.

The Cyclone Reinsurance Pool is an example of an initiative that should improve access and affordability for high-risk strata schemes. As noted under *(b)* there is an emerging case for a national safety net mechanism to support uninsurable strata schemes on a temporary basis while taking steps to reduce risk and improve resilience.

More broadly, we believe that a well-capitalised and competitive strata insurance market is the most effective mechanism for distributing the cost of climate risk. As documented in this submission, the current market falls well short in the concentration of ownership and control among intermediaries.
As a priority, we recommend that the ACCC, in consultation with APRA and ASIC, conduct a thorough investigation into anti-competitive practices and incentives as well as barriers to entry for new capital, underwriters and distributors.

Strata insurance is a national market and needs an effective national response. The importance of effective guardrails to sustain healthy competition has already been recognized by the Government and the current parliament:

> *Australia is at a crossroads. We are emerging from a decade of low productivity growth. The need for competition and economic dynamism is great. And as this report points out, there are*

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35 https://www.industry.gov.au/sites/default/files/July%202018/document/pdf/building_ministers_forum_expert_assessment_-_building_confidence.pdf

many opportunities - at an economy-wide level and at a sectoral level - for meaningful reform that not only produces immediate benefits for consumers but that will also deliver higher standards of living for future generations.[36]

Strata insurance is a prime example where meaningful sectoral reform will deliver both immediate and long-term benefits. Insurance is usually the largest single expense covered by strata levies, in turn the largest recurring cost for strata owners after mortgages.

Compounding double digit increases in average premiums – on average 13 per cent per annum for the past five years and much larger increases in many instances – have made an outsize contribution to inflation and housing costs. We believe there is ample scope for increased competition and innovation to improve efficiency, particularly in intermediary costs.

Tax reform can also improve affordability by removing the longstanding inequities of state-based stamp duties continuing to be levied on top of GST. NSW has recently taken an important step to reduce the cost of insurance by announcing plans to replace its current emergency services levy with a fairer funding mechanism for those services. OCN will continue to advocate for stamp duty removal at state level but believes genuine reform is best achieved as part of a broader national agenda.

(h) any other related matters.

OCN's longstanding position has been that payment of commissions and similar third-party remuneration or benefits to strata managers by service providers, including but not limited to strata insurers, creates a fundamental conflict of interest and undermines the fiduciary relationship with owners.

We will continue to advocate for reform in this area at state and territory level and welcome what we see as a groundswell for change within the strata management industry itself in response to recent reporting by ABC's 7:30 Report[37].

Removal of strata insurance commissions for managers, on their own, would not guarantee improved costs or better service to owners unless accompanied by reform to upstream distribution to improve competition and reduce intermediary costs. In the current market those commissions could simply be retained by brokers and underwriting agencies.

Many strata management agencies rely excessively on insurance commissions[38] and would need to increase other fees to remain viable. This underpins our view of the critical importance of effective co-ordination between the states and national agencies in prosecuting reform in this area.

There is also a role for government in empowering consumers through public education and providing more resources to help build confidence in navigating the increasing complexities of strata living. Collectively, strata owners do in fact have considerable power to demand better services and lower prices. They should be encouraged and supported in doing so.

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[36] Better Competition, Better Prices: Report on the inquiry into promoting economic dynamism, competition and business formation. House of Representatives Standing Committee on Economics March 2024

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