

Publication Date: 13 November 2018
YSP Podcast Transcript: Episode 138. The shocking truth about broker commissions and fees

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Intro: Welcome to Your Strata Property. The podcast for property owners looking for reliable, accurate, and bite-sized information from an experienced and authoritative source. To access previous episodes and useful strata tips, go to www.yourstrataproperty.com.au.

Amanda Farmer: Hello and welcome. I'm Amanda Farmer and this is Your Strata Property. Heather Lander is the broker manager for Strata Advise, which is a specialist strata insurance broker company leading the market in strata insurance advice, claims, negotiations and complex risk placements. Heather has 15 years experience working in the strata insurance industry, and during that time, has held senior management positions with both brokers and insurers. And I'm sure that Heather's name will be well known to many of our listeners.

Having built her stellar reputation managing the insurances for large and complex mixed-use strata developments, Heather co-founded Strata Advise with a mission to fill a gap in the strata market when it came to strata committees and lot owners receiving independent, ethical and professional insurance advice, including advocating for the transparency of all commission and fee arrangements. Really important work. Today, I'm absolutely delighted to welcome Heather Lander of Strata Advise. Welcome, Heather.

Heather Lander: Hey Amanda. Thanks for having me on your program.

Amanda Farmer: No worries at all. Thank you for taking the time out Heather. We've chatted a few times about having you on the podcast and I am very happy that we've been able to make that time. Heather's actually I think the first broker who we've had on the show. And I've invited Heather here to provide our owners, our committees and even maybe some of our strata managers who might be a little less experienced, with an understanding of what an insurance broker is. What is it exactly that they do? Do you need one? Should you have one? And perhaps, most importantly, some of the pitfalls to avoid when appointing an insurance broker. And hopefully, we'll have some time to get into some hot topics and some issues that the strata insurance sector is facing at the moment when it comes to brokers and financial services advise.

So Heather, I'm actually going to start by asking you tell us a little bit about the role of the broker, if you can when it comes to insurance for strata buildings in particular. And in my mind, the kind of questions that fly around are whom do they work for, what do they do, does every building need one? Over to you.

Heather Lander: Thank you. Look, just to be very clear on that, the broker is always working for the client. They don't work for the insurance company. I guess this is another reason for this hot topic at the moment because there are a lot of things happening in the industry. And I've seen it firsthand myself where it's not very clear that the broker is working in the best interest of the client hence there's need to push forward with strata advise.

I guess as the broker, we are specialists in understanding insurance contracts, the clients are not. And they engage us to understand the risk that they have associated with their property. And as the broker, we go to the insurance companies and arrange and negotiate the best contract that we have to cover off meeting those risks and minimising the risk for the client. So again, we work on behalf of the client in making sure that we're transferring the risk to the insurance company and not self-insuring the risk for the client.

Amanda Farmer: And when you say client in a strata context, is that the building or the strata manager?

Heather Lander: When it comes to the client, that is actually the owners corporation. When you've got more complex schemes then you might have a building management committee that sits over multiple different strata plans or owners corporations and strata lots, the client can be the building management committee.

Amanda Farmer: Yes, sure. Okay, so the role of the broker is really to get the best outcome, the best deal, the best policy in place



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for the client, for the building. What role do you have when it comes to insurance claims? I often see brokers involved then with the day-to-day administering of the policy. How does that work?

Heather Lander: Yes. And I think that's probably what I've seen a lot of in the market at the moment. Is even with brokers, they play an administrative role but they're not actually adding any benefit or giving any advice to clients whether something is covered or not, how to actually talk the client through the process of dealing with the claim in the best way possible. Again, as the broker, we are the experts in understanding that insurance contract. We know when something is covered or not covered when the claim is submitted to our office. And that is before it's actually being lodged to the insurance company. So our approach with claims is very hands-on. I actually started in a claim's role and our team actually learned both broking and claims in conjunction to make sure, because that's where the advice and the expertise come down to, is on claims. You then test that insurance contract and make sure that the client is getting the response that that policy actually allows them to get.

Amanda Farmer: So instead of perhaps just being a postbox for paperwork and shuffling things between the strata manager and the insurer, you're suggesting that the broker should really have an advice role to say, *"Look, I've looked at the policy, this is covered, this is not covered. This is what you might want to change before it gets to the insurer and perhaps it's too late to address issues that could have, if they were addressed, resulted in a more successful claim, perhaps."*

Heather Lander: Correct. Well, I think what is, is it's not massaging the information to, I guess, to a fraudulent claim. But it's about sometimes the information that clients put forward is a little bit convoluted. It's not clear because they don't have day-to-day dealings with managing claims. That is our expertise and that's where they need the assistance of the broker to hold their hand through that process and make it somewhat a little bit more of a nicer experience. And some of the clients that we've dealt with in recent times have explained some situations that they've had with their broker. And the response from a broker when something major has happened or a claim has come up is, *"Contact the insurer."* And I find that very surprising especially when brokers are receiving a commission and fee for the service that they are supposed to be providing but just not.

Amanda Farmer: Yes. Tell me about that, who pays this commission or fee?

Heather Lander: Yes. Generally, just as a bit of a historical matter, the insurance company pay a commission. Now, you can actually place a policy so that you don't receive any insurance commission from the insurance company. But generally speaking, the insurance company work out a commission, set a standard level of 20% commission. And that is paid to the broker or to the strata manager where they're placing an insurance policy direct. But that's paid by the insurance company.

Now, on top of that, the broker may choose to apply a broker fee as well. And so when the broker then puts the quotes forward to the owners corporation for consideration, they will table the total premium including commission and fees. Where we have taken a different point on this, and really the transparency of those fees and commissions. Is the number of brokers ... In fact, I don't believe there are any brokers out there in the market other than ourselves at the moment, that are putting forward and tabling to clients the total commission and the fees that we receive for the services that we provide to a client before they make a decision on which policy to take.

Is there's no point in telling a client after they've already decided whom to place their cover with? And I guess what it is, is we want to be clear and transparent with our fees and income. We want the client to understand what we're going to provide for that fee and the income that we're charging so that they can also then value the services that we're providing in dealing with the insurance.

Amanda Farmer: Sounds like a good idea to me. Is there no legal obligation on brokers to do that?

Heather Lander: No. And this is I guess something that has come up in the royal commission with the ... So with the Financial Services Reform Act of 2002, there's only a requirement for a broker just to disclose fees and commission when they are providing personal advice.

Amanda Farmer: Right.

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Heather Lander: Now, there are not brokers in the strata market at the moment providing personal advice. They're simply giving everything as a general advice recommendation only. And the moment you have general advice, there is no requirement to actually disclose your fees and commission. Therefore, the client is actually losing out. So the client is probably going to be paying more in insurance costs and fees and commission where they don't receive personal advice because a broker has not told them what they're receiving. And I'm very certain that there would be a lot of claims out there that they would be shocked if they actually put some questions forward to their broker to ask them, "*How much do you receive in commission and how much do you receive in fees?*" They would be shocked to see what is happening in this industry.

And so, I think whilst the wrong commission has not got to this stage at this point, I think it's a matter of time before these things really do start to come out because consumers are becoming more aware, more educated. And we need to, as an industry, do the right thing by the client. Because at the same time, at the end of the day, we all need to be putting the client first. And that seems to be something that has changed in recent times with various different things going on, especially in the strata insurance market.

Amanda Farmer: Okay. Wow, there's a lot there. A few questions straight up, or first of all perhaps a clarification. I just want to be clear for our listeners that when we're talking about fees and commissions to brokers, this is different to the commission that might be paid by an insurer to your strata manager. And as some of our listeners might be across when our new legislation came into New South Wales, now a couple of years ago, I can't believe it, there was a new requirement for strata managers to disclose the commissions that they were getting from insurers in respective insurance policies.

What I think you're saying there Heather is that if there's a broker involved, then there are fees and commissions going to a broker quite separately from what might go to a strata manager. And certainly the Strata Schemes Management Act doesn't deal with disclosure on behalf of the brokers and it's sounding like no other legislation requires you to do that in the context of general advice, which is scary. I agree with you. Fascinating too for buildings to be able to look behind the veil, if you like, and see where their money's really going.

Heather Lander: Yes. Obviously, the Strata Schemes Management Act is completely separate legislation that governs brokers. There's a number of different acts that brokers fall under but the Strata Schemes Management Act is not one of those. And whilst that came into effect in December of 2016, strata managers now have their commission outlined. But the clients have never realised that that commission is very separate to of that what the broker is making.

Amanda Farmer: Is it possible that there are 2 sets of commission on the one policy?

Heather Lander: No. So the way in which it works is when the strata manager is taking a commission but the policy is being placed by the broker, generally, the strata manager is receiving a percentage of all of the commission that was paid to the broker from the insurer. And the way that the broker makes up their income is by way of fee.

Amanda Farmer: Fee. Okay, got it.

Heather Lander: Or if the strata manager takes all of the commission that's payable by the insurer, say 20%, that all get passed on to the strata manager and the broker fee is separate which is how the broker is remunerated for his services.

Amanda Farmer: Yes, got it.

Heather Lander: The problem as I said before, is the fact that when brokers are putting quotes forward and they're giving total payable amounts, the clients cannot clearly see the breakdown of how that total is derived. We have seen a number of times where you might have the insurer's premium coming to \$10,000 but the broker fee on top is another \$10,000 therefore [crosstalk 00:13:14] in a report \$20,000 for a quote.

Amanda Farmer: Oh my goodness. Wow.



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Heather Lander: I think as the industry and the clients become more aware of the practices that are going on in the market, these questions will start being asked more and more frequently and brokers are going to get called out for this type of behaviour.

Amanda Farmer: Yes. Okay. So tell us what our building should be doing, what our committee member should be doing when they're renewing their insurance policies, getting quotes, working with brokers. What questions do they need to be asking so that they are fully informed?

Heather Lander: Well, I think this comes down to any service provider. Is when you are looking for a service provider whether it be a strata manager or a broker or even a plumber, a lawyer, an electrician, you obviously want the best. You want someone who is going to tell you what is needed for a certain job, be open, upfront, be honest, transparent with fees. And so, I guess these questions are more along the lines of I would be asking is what is the experience of that broker? What are their dealings in strata and what is their experience? And that needs to go into things such as not just placing insurance but also into that claims as well because we all take out insurance to protect us in the event something goes wrong. So it's all about claims.

It's also about understanding does the broker clearly, and are they transparent with fees and commission? Are they coming upfront and saying, *"This is what I'm going to charge."* I think this is a very good question for a committee to ask so that they can clearly understand how much they're paying for the advice and service that they're receiving.

Amanda Farmer: And it's quite possible that the broker will say, *"No, I'm not going to tell you because I don't have to."* Which I imagine you will then say, *"Well, that's not the broker for you."*

Heather Lander: Exactly.

Amanda Farmer: Yes.

Heather Lander: That is not the broker for you. Is if a broker is not wanting to disclose information ... The moment you ask that question, they should be coming back with that response. But my view, brokers need to be coming forth with that information first and foremost.

Amanda Farmer: And what's very interesting as we discussed earlier here, is that the broker is working for the building. I think I might have chatted to you about this Heather recently, I had an experience where a strata manager unreasonably refused access to information that the broker held when the committee was trying to obtain that information. And the committee came to me saying, *"Why aren't we entitled to speak to the broker? Why aren't we entitled to get those records? Is the broker's relationship with the strata manager or with us?"* And the reason I'm raising this now is I'm anticipating that some committees might, through their strata manager, be asking these questions and the strata manager might say, *"Oh well, we use this broker. That's whom we use for all of our buildings, not a matter for you, it's a matter for us to make these decisions on your behalf."*

And I guess what I'm flagging here is grab a transcript of this episode and go over Heather's questions and comments there and be ready to assert your legal rights and your right to that information, your right to communicate with the broker and to choose a different broker, if that's a better option for your building.

Heather Lander: Definitely.

Amanda Farmer: Heather you mentioned there the banking royal commission which has been ongoing in Australia throughout 2018. I think we've seen an interim report just recently and there'll be some more inquiries towards the end of the year. A lot of attention on the banks by the insurers and insurance brokers have been involved and other financial services providers. What have been some of the key takeaways I guess for you as a broker? What should we be aware of and across in the strata insurance sector?

Heather Lander: Well, it has been directed at the banks at the moment, but the key thing that they've actually focused on was

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what they actually referred to as vertical integration. And the reason that I'm bringing this up today is this is something that is happening more and more in strata industry that I think a lot of consumers and clients would not be aware of. What they mean when they're talking about vertical integration is when a product provider ... And when I say a product provider, in strata world, that would be considered an insurance company, and an insurance adviser, so that would be considered to be a broker, are actually owned by the one. So when they looked at it in the banks, you look at the number of different banks, they have the bank and then they will also have insurance products off the side.

Amanda Farmer: Yes.

Heather Lander: And what it is, is they get the client in the door and then they're recommending a product that is owned by the same company. And when you come back into strata insurance, this is actually happening in this market. Is the number of releases in the last couple of months about companies now being owned, brokers being owned by the one parent company. So you've now got 3 specialist strata brokers that are owned by the one company or have part ownership in the company. You've then got insurance companies or underwriting agencies that are also now being owned by the same company.

And I think as this type of ownership structure is in place, we're going to see a lot more of this not just in the banking industry, but also into the strata insurance industry. Now, I think the biggest issue here is we've talked about the transparency of fees and commission but that then comes into how these companies are actually dealing with the conflict of interest. How do you actually promote and put forward and recommend a product and how you're actually telling the client that this company is owned by the same company. And so it's going to be very interesting times on that note to see that. The recent change as well has been where strata managers are also coming into the ownership of broking companies.

Amanda Farmer: Oh, it's going to be my next question for you. What do you think about strata managers getting in on the action?

Heather Lander: Well, this is ... I guess bringing it back down to the initial point on our discussion was at the end of the day, all of us service providers, we all have a common thing and that is that we represent the insured party, the owners corporation. We must put their interest first, not the insurance companies, not our financial benefits that we're going to get by putting some business in a certain position. It all comes down to the client first.

Heather Lander: And when a strata manager, or anyone for that instance, looks at the financial benefit before they actually put the client's interest first, this is where this industry is not going to stand on its own. It's going to only go against the client because it's not going to be long before clients actually understand what is going on. And that is one of the things when you're looking at your broker, you want to be understanding how they go about dealing with those conflicts. I'm not saying that you can't engage your broker that has got ownership in another broker, but how are they actually doing that and how are they justifying that this is the actual best broker for that client?

Amanda Farmer: For sure. I sense that we're only scratching the surface here Heather of these really important issues and I do thank you for bringing them to the floor and for starting this conversation, which I'm sure is going to continue and become a bigger, more important one especially as we have some more players entering the market or doing some creative things. Strata management companies doing creative things, insurers and brokers doing creative things. So it's something that our buildings, our committee members should keep their finger on the pulse with that one and we'll make sure that we bring important updates to the front as we need to.

And I wonder Heather, does that mean that we're going to see perhaps smaller, what I might call, independent brokers struggling I guess against the bigger conglomerates that might have the subsidiary companies, the different arms of the business, the strata management, the insurance, the broking. If they're all doing everything in-house, so to speak, what's going to happen to the smaller boutique hands-on players I guess like yourself? Where do you see that placing you guys?

Heather Lander: Well, we've actually experienced this firsthand where an insurance company has actually refused to deal with Strata Advise on the basis of fears of competition, we believe, but also due to the fact that we don't fall into that vertical integration model but we're not going to. They've got other brokers and different insurance companies on that panel where they can conduct

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themselves in that way. So these giants will act in this manner and I guess at the end of the day we are only wanting to put our integrity first, look after our clients and act in an open and transparent manner. And if insurance companies don't want to trade in that manner, it's-

Amanda Farmer: Their loss I would say.

Heather Lander: [crosstalk 00:23:00] for them.

Amanda Farmer: Yes. And the key really comes back to educating our buildings, our committee members that they have the choice. It is up to them, it is not up to the strata manager, it is not up to their insurer if they want to use a particular broker than it is for them to make that decision.

Heather Lander: Correct. They always have choices.

Amanda Farmer: Indeed. Okay, Heather, I usually ask my guests the book question. We are running out of time. I have a feeling that that book question that may catch you by surprise just from a conversation that we had off the air. So I'm going to skip over that one but you are going to be back on this podcast educating all of us in the wonderful way that you do. And I'm going to ask you the book question then, so you better be ready to tell me what books have had the greatest impact on you and why. I know our listeners will hanging out for that one.

We are going to wrap up but before we do, let us know how our listeners can find out more about you and about Strata Advise. And if there anything you'd like to add, go for it.

Heather Lander: My e-mail address is heather.lander, L-A-N-D-E-R, @strataadvise, with an s, .com.au. My mobile number is 0415-030557. Amanda, I look forward to coming back on the program again and sitting down with you to help clients understand the pitfalls and what they need to look out for in terms of insurance.

Amanda Farmer: Absolutely. We have discussed some very important issues here today and I can't help but feel that both of us might be getting a few e-mails after this one goes to air. Thank you very much for chatting with us Heather and I look forward to catching up with you at our next industry event. You are always there supporting the sector, supporting women in strata in particular and we do love to see you and see the good work that you continue to do. So, thank you.

Heather Lander: Great, thanks Amanda.

Outro: Thank you for listening to Your Strata Property, the podcast which consistently delivers to property owners reliable and accurate information about their strata property. You can access all the information below this episode via the show notes at www.yourstrataproperty.com.au. You can also ask questions in the comment section, which Amanda will answer in her upcoming episodes. How can Amanda help you today?

