

Publication Date: 16 August 2016
**YSP Podcast Transcript: Episode 023. What to look for in a Strata Insurance Policy -
with Leonie Milonas**

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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: Hi, you are hearing from me straight up this week because I've got 2 special announcements before we get stuck into my interview with Leonie Milonas from Strata Community Insurance where of course, we are talking all things insurance.

Okay, 1st announcement: with impeccable timing, we have a question about insurance posted to the Your Strata Property website. The question is from Heather Law of Essential Strata Management. Heather is a strata manager in beautiful Bega in New South Wales.

Now, Heather very kindly says that she's been listening to the podcast since day one and she's very appreciative of the easy listening format and the quality of the information being discussed.

Thank you, Heather. And Heather says that her team incorporates ideas from the podcast into their everyday practice, that is great to hear. Now, Heather's noticed that Section 85 of the New South Wales Act and Section 11 of the regulation have been repealed.

These sections relate to the need to obtain valuations for insurance purposes. And Heather wants to know when the repeals occurred and what recommendations I have to ensure that the property is adequately insured in the absence of this legislation.

Now, with a new Act for New South Wales just around the corner, this is actually something that I want to devote a full episode on in the near future. So, Heather, thank you for your important question and definitely stay tuned for the answer which will be in an upcoming episode very soon.

Now, remember, if you do have a comment or a question, please do post that under the episode on the website. All the episodes are at <https://www.yourstrataproperty.com.au/podcast> and I'll be sure to answer your question in upcoming episodes.

Now, the 2nd announcement is that we have a bonus fact sheet accompanying the episode that you're about to hear with Leonie Milonas. And this fact sheet answers the common question of who is responsible for insuring various items within a strata scheme? So, what items are a lot owner's responsibility and what items are the responsibility of the owners corporation or the body corporate?

Leonie and I have put together this fact sheet and you can download a copy for yourself by going to www.yourstrataproperty.com.au/insurance.

So, sit tight for a very informative interview with Leonie Milonas of Strata Community Insurance and then head on over to www.yourstrataproperty.com.au/insurance to download your fact sheet. Enjoy the episode.

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Amanda Farmer: Hello and welcome. I'm Amanda Farmer and this is Your Strata Property.

Leonie Milonas is a passionate insurance professional who has been involved in the insurance industry for more than 25 years.

She has specialised in strata insurance for the last 9 ½ years and she is the Western Australian State Manager for Strata



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Community Insurance Australia, known in the sector as SCI.

SCI provides specialised products and services to the strata and community title sector. It's an independently owned private company partnering with the Allianz group, the largest property and casualty insurer in the world.

SCI's founders have four decades of experience across 6 countries dealing exclusively in the strata insurance market. They understand the complexities of the sector and its governing legislation.

Leonie is a board member of Strata Community Australia Western Australia and convenes educational and professional development for the membership in WA. She also sits on the National Advisory Board committee for SCA.

Today, I'm delighted to welcome, Leonie Milonas of Strata Community Insurance Australia. Welcome, Leonie.

Leonie Milonas: Thank you, Amanda, you make me sound so old.

Amanda Farmer: 25 years experience, you must have started when you were 12!

Leonie Milonas: Thank you, I like that.

Amanda Farmer: And of course, we've got you here today to talk about insurance, specifically strata insurance. And to try and give our listeners some insights and some enlightenment about what this often scary, complicated area is all about.

So, of course, I'm gonna ask you, first question, what does a good strata insurance policy cover?

Leonie Milonas: This is a very broad question to answer you know. That is a hard one to actually try and consolidate for your listeners today. But I will definitely do my best.

There are really many aspects to choosing insurance and what makes a great policy. And I can go on with a lot of different points here. But just to touch on a few vital ones which I believe, are important for your listeners today.

Firstly, it's important to comply with the strata title laws of the state. So, whatever state you are residing in, you need to comply with those requirements.

Amanda Farmer: Yes..

Leonie Milonas: The other part here is the insurer has to be financially strong to pay large property claims. If we reflect on the Christchurch earthquake, that was a large scale catastrophe that occurred. And you know, a lot of buildings in that earthquake actually were destroyed. So, you need to have an insurer that can respond financially in those times.

An insurance claims team will have an understanding of how a strata claim, or should have an understanding how strata claims should be handled. It's about how to handle strata-owner issues during disastrous events.

So, often an insurer is confronted with trying to meet the expectation of owners who are often the recipient of insurance claims, but often are not involved directly in the purchasing of the insurance policy.

Amanda Farmer: That's a really good point, yeah.

Leonie Milonas: And also, a good strata insurance policy will provide relevant and meaningful product benefits. And pay these claims when they happen. So, basically, the policy needs to react as it says it's going to react.



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Amanda Farmer: Yes. You've mentioned there Leonie, the policy needs to comply with the relevant legislation. Now, we of course, in Australia have this wonderful system where every state has a different piece of legislation.

Leonie Milonas: I know.

Amanda Farmer: So, I mean, you answer this as you're comfortable in Western Australia, but what are the specific types of insurances that are required by the legislation?

Leonie Milonas: Yes and you're quite right. I mean, around Australia, the Acts when it comes to insurance, are similar with some variations.

So, the main number one is property damage; property damage, that is when you're insuring the property for its replacement / reinstatement value. So, those things like recovering against perils like fire, storm and tempest, lightning, explosion and earthquake.

And in that replacement value, it also needs to include the removal of debris and the rebuilding cost and professional fees. So, this is to encompass all of that but also, in terms of valuations, it is also to include escalations.

So, it might be a claim that happened today but it could be 2 years before that building is rebuilt or 3 years. And all those extra costs and additional cost all need to be factored in that replacement reinstatement value.

The next area is public liability insurance and most of the Acts specify minimum limits and I know across Australia we all have different specified limits. I know in WA ours is very low...And some Acts stipulate a requirement for fidelity insurance that's for the misappropriation of funds.

And lastly, workers' compensation as required within the state you reside. Because every state, just like the strata titles Acts, workers' compensation also differs amongst all the states of Australia.

So, and then, of course, the last part is really any other insurances that the strata determine is a requirement for them to insure against.

So, that's pretty much a bit of summary of how the Acts sort of work in relation to insurance.

Amanda Farmer: And that's a really good point you make there, Leonie, at the end of the day, once you have ticked the boxes for the mandatory insurances you must have under the legislation, it's important for every building to consider its unique circumstances. And every building is different. We have widely varying buildings these days. We've got commercial schemes and then residential schemes, then mixed-use, and they all have their own intricacies. So, it's important for a committee and the strata manager to step back and say: "Okay, we've got the legislated mandatories in place. What else might assist these owners if worst case scenario happens?"

Leonie Milonas: That's very true and we must consider what's required in the Act as minimum requirements.

Amanda Farmer: Yes.

Leonie Milonas: Strata properties are now being built more sophisticated. The infrastructure is very complex these days so therefore, it's really important that the strata need to consider what the complex issues are. And probably perform a, what we call, risk assessment needs to take place.

Amanda Farmer: Yes.



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Leonie Milonas: The other thing too is getting back to what a good insurance policy needs to contain. It also needs to keep up with the growing demand of those increasing risks that the market's being presented with.

So, therefore, whilst there are these minimum requirements in the Act what they are or what they need to insure goes beyond what the Act specifies.

Amanda Farmer: Yes.

Leonie Milonas: So, that is really important don't just stick to what the Act is saying. That's just a benchmark.

Amanda Farmer: We'll move on to the next question soon, but I just wanna cover this one. I think this is one a lot of listeners will be thinking about it. Something that is raised with me quite often is the relevance and the coverage of office bearers' liability insurance.

So, I'm not sure if you refer to it as the same thing in WA but insurance that is gonna cover your committee members if they are seen to do something or not do something that's then caused the building to suffer some loss.

And committee members are often very concerned to know, particularly when they are dealing with strata lawyers and they're in legal proceedings, whether their office bearers' liability insurance will meet a claim or cover some cost.

Is that something that you come across? Do you have any thoughts on whether it's recommended or you see a lot of buildings take that up?

Leonie Milonas: Yes, another area of cover that is not required by the Act but it's an extremely important insurance section that should be considered to be taken out.

What we find is that more often people are starting to become aware of the need to have office bearers but the limits are very very low. We see a lot of quotes that we've been asked to quote on and the limits are just way low.

What owners need to look for is first, looking at sum insured, will definitely lifted up but in policies, they have a reinstatement as well. So, I think, it's important to look for that in a policy for office bearers for an extra reinstatement.

Amanda Farmer: Can you just explain what you mean when you say reinstatement?

Leonie Milonas: Okay. So, if a policy's exhausted by a claim, that sum insured is exhausted, the policy will be reinstated before being insured again. So, normally, a policy, once the sum insured is used, that section, it needs to be redone.

So, some policies having an automatic reinstatement and that means the policy is just automatically reinstated. So, I think that's really important but the most important point here, really, is to look at the limit that they're specifying. It's obviously, I know it's very hard to give personal advice in relation to that. But start with how big your building is and what decisions are going on your building maintenance and upgrades and all of those things that can trip you up.

I mean, it's a voluntary position, so they probably believe that there is no responsibility because it's voluntary but unfortunately, that's not the case when decisions are challenged as we know, Amanda.

Amanda Farmer: Yes and I think, your strata manager if you have one, is probably a good place to start when you're trying to bed down exactly what that figure is and what you should be covered for. Because they have pretty good experience dealing with similar buildings, the types of issues that come up with those buildings and what your level of risk and level of exposure is as a committee member.



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So, once again, your strata manager isn't gonna tell you, or from the lawyer's perspective 'shouldn't' tell you, what you should be insured for, but they can certainly give you some guidance just like your insurance professionals can.

Leonie Milonas: That's correct, yes.

Amanda Farmer: Okay, so, Leonie, let's talk about some common situations where strata buildings find that they are actually, not covered by insurance and they're surprised by that.

Leonie Milonas: That's a good question, I like this one. Often we find that the expectations of insurance is that everything should be covered. But, we know Amanda, that isn't the case, when you think about your own circumstance do you know what's covered in your home and contents insurance?

Amanda Farmer: I think I know but I'm sure I'll be surprised.

Leonie Milonas: It's amazing this one that owners do have an unlimited liability and that does extend beyond the strata asset. And whatever the shortfall is, they are responsible for it and to the full extent, as with your personal assets.

Public liability I'll start with that one, that's a classic because where an injury claim can end up can be very high. An example where owners have taken a minimum limit, some strata minimums are \$10 million dollars for example. But what happens if the liability claim is presented in 13 units? So immediately there's a shortfall.

Amanda Farmer: Scary stuff.

Leonie Milonas: It is and I remember an example many, many years ago. It was a large claim that occurred due to a balcony collapse which resulted in many seriously injured visitors.

Amanda Farmer: Oh my gosh.

Leonie Milonas: They were mostly professional people. It was an awful claim and very sad for those injured people. The owners of the property were unable to move on with their life. Because that claim hung over 10 years before it was resolved.

Amanda Farmer: Oh dear.

Leonie Milonas: Yes. During that time, the extent of liability wasn't really known and those people's lives were put on hold. And the owners you know, just what do you do in that situation? You just have to wait...

Fortunately, the end result, I don't believe that the unit owners were liable but it is an example of you know, where a low limit can leave you...

Amanda Farmer: With a lot of grief.

Leonie Milonas: A lot of grief.

Amanda Farmer: Yes.

Leonie Milonas: Another area is machinery break down. Often we see that's not taken, that's missed over, but what you really need to do is undertake a proper review of your building, understand what's in your building, understand that electrical...

And I guess owners should potentially ask themselves some questions like do you have a lift and what happens if my building lift goes out of service? How will the owners exit the building if the lift goes down?

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Leonie Milonas: What happens if elderly people live on top floor or what about occupational, health and safety issues with the lift? So, machinery breakdown is really important it goes beyond just you know, covering the lift, it could be air conditioning plant, it could be pumps you know, water pumps, all sorts of things. So, they really need to understand that part of it.

Another contentious area dare I mention is building defects.

Amanda Farmer: Oh, those dirty words.

Leonie Milonas: Yes, very dirty. View policy wording carefully as insurance wording differs in the marketplace...

Amanda Farmer: Yes.

Leonie Milonas: So, defects are not usually covered and only some policies do cover resultant damage due to unknown defects.

So, an example very simply is like a burst pipe causing water damage to a unit. Policies in this area are not straightforward and therefore, I can't stress enough today, that owners must read their policy wordings.

Amanda Farmer: It's certainly an area ripe for dispute and one that lawyers generally get involved in when perhaps, insurers have declined claims and there are some debates about what the policy wording actually means. What it covers and then the owners corporation thinks that they were covered for resultant damage. And it turns out the insurers just decided that they weren't so, that's not a very nice surprise to have.

Leonie Milonas: Yes. So, reading your policy is very important.

Amanda Farmer: Yes.

Leonie Milonas: So, another area is maintenance issues. This is an area that does catch out owners quite frequently. For example, a pipe that is rusted away and finally burst.

The resultant damage might be covered but the rusted pipe isn't. Yeah, there is an expectation that wear and tear and maintenance issues should be claimable but they aren't. And an insurance policy is not a maintenance policy.

Amanda Farmer: Yes and I think that really harks back to the point of purchase. When people are buying into strata, understanding that they are gonna have obligations to contribute money to the repair and maintenance of the building.

And to be very clear about the fact that insurance simply isn't going to cover all the costs while it's there, though it can be very helpful. There is ongoing as you say, day to day wear and tear, and we're gonna have to all pitch in and contribute to our share of that and that's the nature of community living.

Leonie Milonas: Yes, that's so true and definitely, from a claims perspective, we do say, this area isn't really clearly understood.

Yes. I guess, I another areas that differs a lot in how things can be claimed is in the area of the benefits.

When you look at all the wordings on the market, it's a bit sort of, likening it to health insurance...

Amanda Farmer: Yes.

Leonie Milonas: The wordings on the market today are a mixed bag full of different benefits and that comes back to understanding what's important to you and what benefits are for your strata.

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Leonie Milonas: I guess, you know, not losing sight of choosing the right insurance. We are not focusing on the price of the insurance. And you know, not making price the denominator for the choice but basically defining what the coverage that you require and matching the alternative quotes that you might want when you're choosing the whole insurance piece.

Amanda Farmer: Good tips. Okay, Leonie, can I ask you to share a story around how you or maybe SCI has helped a building with your skills in this area?

Leonie Milonas: Yes. Since SCI started, we have introduced Section 11. It's called lost of market value.

Amanda Farmer: Yes.

Leonie Milonas: And this section was designed for buildings who encounter local council planning zoning changes.

Amanda Farmer: Aha.

Leonie Milonas: So, yes which means that the building will be unable to be reinstated or if it can be reinstated, maybe not to exactly what it was prior to the loss. So, in these instances, it can lead to a shortfall and so, this loss of market value shortfall can now be insured. And we are seeing clients starting to review this issue and take up cover in the policy.

Amanda Farmer: Is this something that is quite common in WA...the council rezoning and...?

Leonie Milonas: It is actually, in WA we have a lot especially around the Swan River...the different councils have different requirements, or they seem to be changing and it is something that is always subjective but definitely it happens. I'm not sure about the eastern states but I do believe it also happen in the eastern states as well, I don't know how that plays out.

Another area that I'd like to touch on and is a real example of a claim that we've had it was a fire claim where the building had to be evacuated...we've evacuated in-house all of the tenants and the owners and so SCI was able to put them all up for a whole week under emergency accommodation whilst the building was repaired so I think that's a really great outcome for the building but it makes excellent example of emergency accommodation extended to the owners and tenants.

Amanda Farmer: Yes it's something that you hope never happens and it's certainly not common but I know a building here Sydney's Eastern suburbs where precisely that happened. They had an explosion and they had to move a lot of residents very quickly and the insurance certainly stepped in there and helped out that building so they were very grateful to have that. Terrible situation to be in but that's when you say thank God for that policy.

Leonie Milonas: Yes, I think also Amanda that the point here is that the tenants usually are the forgotten party but they are just involved as much as the owners I think it was a great outcome.

Amanda Farmer: Yes. Good story. Ok, some quick wins that some of our listeners might be able to take away today to get their insurance coverage in order, what would your tips be?

Leonie Milonas: Ok I would start with the first place is embarking on a risk assessment approach that would be number 1, detailing a plan that looks at every aspect of the building's risk and assigns potentially a low or medium rating, high rating to risks. Professional advisors can help with this.

Amanda Farmer: Yes I was about to say there are people who do this, isn't there?

Leonie Milonas: Yes there is and when you have identified this an owners committee can then decide should insurance be the mechanism that transfers the risk or should they adopt some other strategy, may be something that may not be insurable, flood is a great example here. Sometimes the flood premium, for example, might be so expensive that it might be easier to incorporate some

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sort of mitigation strategy for flood. Well, that's an example of that.

Amanda Farmer: Good point.

Leonie Milonas: Professional strata managers play an enormous part in assisting in arranging the insurance as they can facilitate and quickly communicate requirements and also assist the owners for the framework of reviewing the insurance.

Also strata managers get to know the building extremely well and are able to detail risk information to the insurers. Also, they deal directly with the insurance when it comes to claims and get things approved.

In term of a strata that embarks from on a regular maintenance plan as been mentioned earlier...

Amanda Farmer: Yes, "prevention is better than cure."

Leonie Milonas: Yes a good maintenance plan that is a great underwriting for any insurer as a building well maintained is seen as a quality risk and this can result in a bit of premium reduction for the strata.

Lastly, review your limits on your current insurance policy. Have you updated your building valuation, very important. Keeping your building insured as per the replacement value is extremely important and that should only be attained by undertaking a licensed valuation. I know potentially in NSW it might a little bit different but I know in other states the importance of a valuation isn't the same and in WA there is no requirement to get a licensed valuation but it is an industry best practice.

Amanda Farmer: And something that I've seen come up which is an important issue to be aware of: making sure that when the building is being valued the correct areas of the building are being considered. This is an issue I came across recently where there was a building and it was some 20 years old and renovation work had been done and it had been done by a lot owner and for quite a long time it had been considered that this extension that the lot owner had added onto the building was common property. It was uncovered by one of the other lot owners who was sick of paying very high insurance premiums that "hang on this isn't common property this is actually lot property and this isn't the responsibility of the owners corporation to insure" so in my mind that's really a first step. Yes, get the valuation but what are we valuing? And to be very clear by both looking at the strata plan and having someone visit the property that we're valuing the right areas to get an accurate coverage. We're not either overpaying or underpaying for our insurance.

Leonie Milonas: Yes giving instructions to the valuer is very important and it's the councils or the owners committees that really need to define what those instructions should look like and they themselves need to be clear how those instructions should be presented to the valuer as well, because getting it right is important. There's a lot at stake.

Amanda Farmer: Definitely. Ok. All really great tips that I'm sure our listeners can go and implement very quickly to sort out their insurance worries.

Leonie what books have had the greatest impact on you and why?

Leonie Milonas: Ok well, I don't get to read a lot because in my down time I love the outdoors I enjoy running and doing all sorts of things but I did read a book it was self-help book written by Sheryl Sandberg called Lean In.

Amanda Farmer: Oh yes we know that one.

Leonie Milonas: You do? Yes and I guess as women we punish ourselves...I know I do, and we take the back seat rather than the front and we do work very hard I believe but we often don't let other people know of our achievements so, I mean this book was a good book for me and I think I would recommend it for any person or woman...juggling hundreds of balls in the air with young children and family with demands and also trying to develop their career. That's a good read that one.

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Amanda Farmer: Great suggestion.

Leonie Milonas: And fictional which is always fun and enjoyable – Bryce Courtenay's Jessica. I enjoyed that book

Amanda Farmer: Ah yes I think I've read that one, I'm looking at my bookshelf and I think it's on there I remember that one.

Wonderful! Ok, Leonie how can our listeners find out more about you or about SCI and is there anything you'd like to add before we say goodbye?

Leonie Milonas: Just a couple of little points, to re-emphasize to your listeners: not to choose insurance based on price and to always read the wording and understand the cover that you buy I think that's important and adopt a risk assessment to make sure that your building is well maintained but basically our positioning at SCI is all about bringing the strength of our experience to a building. SCI can be reached online by our website with contact details available www.stratacommunityinsure.com.au

Amanda Farmer: Let me just clarify that so its stratacommunityinsure.com.au

Leonie Milonas: That's correct.

Amanda Farmer: Great.

Leonie Milonas: And as you mentioned at the beginning I am state manager here for Western Australia and can be reached through our website details. And thank you, Amanda, for your time today in interviewing me.

Amanda Farmer: Absolute pleasure to have you, Leonie, I think that's a very solid summary of what owners in strata buildings, and even strata managers I'm sure are gonna get a lot out of this, what they need to be thinking about when it comes to their insurance so thank you so much for offering all of that value.

Leonie Milonas: Thank you very much, Amanda.

Amanda Farmer: Thank you!

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 by 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?

