

Publication Date: 4 April 2024

## YSP Podcast Transcript: 403. Strata Management's Future: Reena Weighs In

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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.

**Amanda Farmer:** Hello and welcome. I'm Amanda Farmer and I have with me today, Reena Van Aalst from Strata Central. Hi, Reena.

**Reena Van Aalst:** Hi, Amanda. How are you? Today I'm actually joining you from the office for a change.

**Amanda Farmer:** I can see, you got a different background there. There's some....

**Reena Van Aalst:** Yes, Noise.

**Amanda Farmer:** We'll forgive you. I have booked you in at short notice because I don't know if you noticed, but there's a few things going on in strata at the moment and I would love your perspective on them.

**Reena Van Aalst:** Thank you.

**Amanda Farmer:** So tell me this, where were you and what were you doing when you first read the now pretty famous in our circles, news story last Thursday morning?

**Reena Van Aalst:** Yes, I was actually at home and I looked at my phone. I had the text message and I thought, oh, from one of my special suppliers. And he had sent me the article. And because I was actually working from home that morning, I went on to the ABC news channel at 9 AM and pretty much listened to the whole thing and recorded it. And they actually interviewed the journalist who had broken the story. So I actually recorded that on my phone firsthand to sort of see his insights and context into what had happened.

**Amanda Farmer:** What was your gut reaction on reading and on watching on Thursday morning?

**Reena Van Aalst:** I was actually quite shattered, Amanda and really disgusted to be honest to see that our strata industry had been brought into disrepute. I just think that our job is so hard as it is and having this sort of conduct occurring was really a terrible thing to sort of learn about even though there were rumours that I'd heard about certain large companies undertaking this practice. You know, rumours are rumours but obviously, seeing the evidence of it was quite disheartening.

**Amanda Farmer:** So it was the conduct itself that disappointed you. It wasn't the reporting or the angle that the reporter took. I know I've heard from a few strata managers, I've heard a lot of things in the last week. Certainly heard your point of view that you just expressed. I've also heard things like irresponsible reporting, a current affairs style reporting.

**Reena Van Aalst:** No, I didn't think, no. I don't agree with that synopsis of it. No, it was quite accurate reporting in terms of "here is a disclosure that's not made properly". Some of the staff were not aware of the fact that these fees were already included, they were questioned, the disclosure wasn't apparent. And even if it is disclosed, - and it should be disclosed. And I think the fact that the company owned a brokerage was disclosed. It was more about how the fees were also being charged. The only thing I would say about the reporting that I thought was a bit current affair Stylish was the person who was getting arrears fees. And I think that, I mean, obviously when people don't pay their levies, there are arrears fees that are chargeable.

However, again, there were more issues with that because of the fact that there was all these conflicts and connections with the company that was actually issuing those reminder letters and the fees that were charged and what was being received by the company in relation to that. But again, I mean, that's the only part I thought was a bit in terms of having someone that can't pay

their levies. I mean that's a story that's been there in the media about people being sent bankrupt and all this and stuff. So I thought they had a bit of an element of that in it.

**Amanda Farmer:** Yes. I mean, no disrespect to a current affair on which program I have been an expert a few times now, but I think that sort of side story about the poor young person who wasn't able to keep their property was a little from our perspective as industry players was a little bit left to field and not quite hitting the real issues.

But I think it's important and this is why I wanted to have a chat to you that we're acknowledging this is not just a story about insurance commissions, for example, and you've just given us a bit of a rundown there, Reena, on the other things that were raised.

And I'm hearing that a lot too, especially in the 24 hours after the report came out and everybody seemed to be honing in on the insurance commissions aspect, including myself. It's important to be reminded that this is a bigger issue. There are other payments, other benefits, other failures to disclose or failures to ensure your client properly understands that we're being highlighted and admitted as poor practice in this story.

**Reena Van Aalst:** Exactly.

**Amanda Farmer:** Let's get this out of the way now then. Does your company, Strata Central, receive commissions, payments or benefits from insurers, from brokers, from other third-party service providers?

**Reena Van Aalst:** We do have insurance commissions and brokerage fees disclosed in our agency agreement. But not all schemes that we manage, Amanda, like some schemes we manage, we don't receive any brokerage or insurance commissions. We negotiate with our clients for remuneration they would like to engage in.

And in fact, when I've been asked by some other companies where they want to actually provide us with commissions or an incentive or I've always refused to accept any of that because I believe that any benefit that comes out of our relationship, any financial benefits that could come from these third party arrangements like energy services, et cetera, should be going to the client and not to us.

**Amanda Farmer:** So when you say you're approached by those other third parties, they are energy services, other software providers or.

**Reena Van Aalst:** Well, I mean, yes, well, I mean, software providers haven't asked me, but I've seen a number of agency agreements that I've taken over from other companies where they receive like so much money per lot. It's in the schedule where all the disclosures are made in the agency agreement. But I've never been a fan of any of those arrangements at all. I just think that unfortunately, again, these types of benefits that are given to strata managers, whether they subsidise the management fee or not, which I think insurance commissions we all know predominantly do that. To me, again, that's probably on a schedule at the back. People don't realise how many lots you manage and what you're getting for that. So yes, I think that's again, another type of inducement or benefit that I think should also be stamped out.

**Amanda Farmer:** Having sat with this news now for around about a week, we are recording this the week after it broke. Has any of this changed your practices or have you thought about changing your practices specifically in relation to the insurance commissions and the broker fees that you are receiving?

**Reena Van Aalst:** Well, Amanda, we've always, as a company, maintained a high professional standard and ethical practice. I think that that's been the backbone of what I've tried to sort of instil as a professional strata manager. In terms of insurance commissions, we've always disclosed them. We've been open about the fact with our clients that we don't necessarily agree with having commissions, but some clients would still refer that our management fees are reduced in order for us to receive a commission.

So as time moves on, I think that people will move away from commissions. And I actually would welcome an abolishment of insurance commissions as a whole. I would prefer that it be abolished and therefore all strata managers will be on an equal playing field in terms of their remuneration and how that occurs.

**Amanda Farmer:** So do you think you'll wait for that to happen? And we can sort of talk about how we think that's gonna happen, whether that is legislative reform, or when your agreements are coming up for renewal, which I think maybe some strata managers might be thinking about, they're just gonna step away from this, how can you see yourself practically dealing with this?

**Reena Van Aalst:** Well, I think now that it's come to the forefront, I think that we will remind our owners that we are getting a commission and if they want to move to a different pricing model when our agreement is being put for a new term, then we will say, well, this is the alternative fee structure that we're happy to offer you and there'll be no insurance commissions.

I think the problem with insurance commissions has been two, Amanda, because the building sum insured has been increasing, that premiums have been increasing, therefore, just as a result of that, the remuneration has been going up. And that's probably more than what inflation's been, et cetera, et cetera. So I think people perhaps don't see the value, like why is that component going up more than your standard management fees would be going up anyway?

And so that's why I think that it's better for agents to offer two types of models and therefore that would I think be more transparent for us to understand that even though it's been disclosed, Amanda, people don't rethink. That's the issue that I think has been missing in all of this where sometimes, you know, on the AGM agenda, you've got your mandatory motion of having in the AGM agenda having the commission recorded.

But I think moving forward, I think the model in terms of I think even I think consumer awareness now may mean that more people will be coming and asking at the expiry of the current agreement when a new one is being put forward or if they're going out to tender and asking for a new strata manager, people will be asking probably more, can you give us a price that excludes commission?

**Amanda Farmer:** And it's a good point that you make Reena that as insurance premiums increase, then so too does the strata managers cut of that without necessarily the strata manager doing more work on insurance claims because that is often correct me if I'm wrong, the strata manager says this money that we get from the commission, it covers that component of our service that will then be dealing with your insurance claims, how that spreads across various buildings, maybe that's right, that it all comes out in the wash that it covers those services, but with premiums increasing, and then commissions increasing, you can see how that can become distorted.

And I did see amongst the many posts that I've been following on LinkedIn from various professionals, I did see a post where a strata manager acknowledged that and said that they recognize that with increased premiums, then their commission is getting higher. And in some cases, they're not comfortable with that. So they take less of a cut on the commission side of things. And it kind of, I'm not sure the manager who posted it realized, but it kind of pointed out the exact problem with this model where you are not getting a fee that is commensurate with the service that you're providing. And therein lies the source for criticism.

**Reena Van Aalst:** But on the other hand also, with large buildings and the large premiums, there's only a broker fee that's charged. And the broker fee, like for one of our large buildings, I think the broker fee was, the premium is like, I think, \$150,000. The broker fee is \$14,000. And we share that equally with the broker. So for large schemes, I think the broker fee is a set amount.

So it's not all, if you look at every single policy, not every policy major will get a commission. I don't know how the arrangements are with different management companies, but for us, we get commission on the small ones, but as they get larger, we only get the broker fee. We don't get a percentage. And we don't want a percentage. We only want a broker fee because we don't want to benefit from someone's fact that their premium is high because of the fact that they've got a big building that will be building something short. So yes.

**Amanda Farmer:** I'm not sure if you are across the position of the Australian Consumers Insurance Lobby and what Tyrone Shandiman spoke about on the podcast last week and this arrangement where he says strata managers will bulk transfer their portfolio from one broker to another without getting informed consent from their committees. And that's happening in circumstances where they are simply moving because they're getting a higher cut of the broker fee.

**Reena Van Aalst:** Yes, I've heard of that. But I mean, we have that five different brokers. So let's say people come from a broker that we don't do it and we say "That's fine, you can stay with that broker but we can't arrange your insurance you'll have to do it all yourself. We can pay the invoice, we can do your claims, nothing else." and obviously our fee takes that into account but when we get a building it's come from say one broker and we never change if they're on our panel of brokers we're not changing the broker so we have about four or five on our panel of brokers and whoever we don't want to change them to get a bigger cut.

And in fact the opposite happens where you know when people come when the broker comes to me says I mean how much do you know I said no, I don't want to commission I just want to you know do the right thing and you know get remunerated in terms of what we're offering our client services but yes I think that I have heard of that happening Amanda where people move around just to get a bigger cut of it and that I think is just wrong.

Also, we get even for a new scheme or any scheme we never change brokers without getting consent of the of the actual committee first. We never ever do that. And when we have a new building and then with another broker that we don't do it with, so we don't do it as a broker. Here are three brokers, here are their proposals and you can choose which one.

**Amanda Farmer:** Or you can stay with the one that you're with, but you'll have to deal with your insurance directly.

**Reena Van Aalst:** Yes, do all the work.

**Amanda Farmer:** Did you see the SCA, specifically SCA national position on the revelations that have come out in the media the last week? And do you have any comments on that position?

**Reena Van Aalst:** Yes, I did read the SCA statement that was issued on Monday, you know, in essence, it says all the right things. But unfortunately, the disclosure guide that had been issued in December 2023 was given to all managers and this conduct was still happening. You know, by an SCA member as well. You don't have to be a member of SCA to be a strata manager. So that wouldn't capture all those managers that are out there that aren't members of SCA.

And SCA expelling a member really doesn't have any bearing, I think, on any particular manager's practice apart from, I know they're now part of the professional standards scheme. So that would be the only thing that would affect, I think, a manager not being part of the professional standards scheme. But I think the whole concept of SCA as it is where it has, you know, it comprises of suppliers and chapter and owner chapter. And it's really, I think, a bit of a sort of murky arrangement, unfortunately. So if you get expelled then you can't be a lawyer anymore?

**Amanda Farmer:** Yes, correct. Yes. You have to be a member of the law society to practice law. So yes, it is different. And we also have as lawyers and independent and separate body, the legal services commissioner to investigate conduct complaints. So I know there is some suggestion here from SCA national that there will be an independent chair for the complaints and conduct panel is what I'm reading. The question that I had for you, Reena was, how independent do you think that panel is or can be to start with taking this most recent example of poor conduct from not just an SCA member, but the president of SCA, New South Wales.

**Reena Van Aalst:** I think the membership model really is a flawed one in terms of professional body. I think that like the Law Society or the Pharmaceutical Society when I was a pharmacist. We had drug companies that would actually sponsor our events and we had professional engagements, but they would not be on our board voting. And unfortunately, I think when you've got three different types of stakeholders it's inevitably going to be a conflict. In terms of SCA, SCA as an organization tries to maintain the highest standards for managers.

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In December last year, it issued that insurance disclosure guide and fact sheet, it told everyone what they had to do. Yet what happens if you don't do it if you get expelled as an SCA member? Well, that's the only remedy when that's not really a remedy. The whole structure has to change where if someone breaches that they're actually struck off as a strata manager, just like in the law society.

And again, our lawyers had also a murky history in the past where they were going to the trust account and all that sort of thing. And that's why the Legal Services Commissioner came into being. And, if a lawyer does something that's not right or a pharmacist, they can't practice it. They're struck off. It's a public record. Whereas with strata managers, I've seen many examples of strata managers doing the wrong thing. It's been reported to Fair Trading and nothing happens. So, unfortunately, SCA law, it's good intentions. I just think more words that are given. And I don't think they have the authority in any legal sense to really, have an impact on those broke as an industry.

**Amanda Farmer:** So do you think we need some legislative reform? Do you think that Section 60 in the New South Wales legislation, which essentially says insurance commissions and other benefits are okay as long as you're disclosing them? Do you think that just needs to be scrapped? Can you see a world where this is just black and white, illegal? And is that what we need so we don't have to have these debates and discussions?

**Reena Van Aalst:** Yes, that's absolutely the matter. That's what I believe should be happening. I think we need to clean up our house and put it in order. And I think that until we get rid of insurance commissions and any other benefits, that's not going to happen. I think the easiest way to make it a level playing field is to scrap insurance commissions. And I know that this has been an issue of contention for many years with some of the smaller companies, if they scrapped commissions, they would probably go broke.

That's what I've heard in terms of the models of remuneration that they have. And that's why I think strata managers may just have to basically look at their model of remuneration and unfortunately not rely on these amounts to fund the management fees for running the strata scheme. Another kettle of fish where it comes to commissions and other sort of kickbacks is lurking in the building management industry, which is another whole area that no one's been looking at while the focus is on trying to manage.

**Amanda Farmer:** Well, Reena Van Aalst, tell us more.

**Reena Van Aalst:** Well, I can't really say anymore at this point in time, but we do have evidence in some of our schemes where people have been using certain contractors because they provide certain financial arrangements benefits back to the food management company. So there's a whole other area as well. And I think the whole vertical integration model of the life strider companies now that's happening where they're doing the fire and handyman and

**Amanda Farmer:** brokerage, building management company.

**Reena Van Aalst:** Yes. Well, building management company, I think you know, that they're the building manager, it's a different, but I think with a fire company, it's got a different name, I think when you have a company where it's the same name. Some companies actually have come to me and said to me, do you offer a building management service? Because we would like to have you doing this for us as well, because you do strata management so well. And they would see a synergy. And some people have the opposite view.

I think that there's no line between no demarcation if the building management is doing the wrong thing, strata management and vice versa. So there are two thoughts in relation to that. But I think the vertical integration model where you know, manage to try to capture more of that, more revenue, I think is a flawed one and it's going to cause conflicts. And obviously, as you can see now in the media, that's another area that's also sort of had some focus drawn on it, apart from the insurance commissions aspect.

**Amanda Farmer:** Well, it is a conversation that we're all going to continue having for the foreseeable future. And it's one that I think we need to hear as many voices as possible on. There's a lot of different opinions. Every new opinion or opinion that's

different to mine that I hear sets me thinking and I think we should all be open to hearing those different opinions and weighing them up.

**Reena Van Aalst:** Amanda, can I ask you on your website and your member forum and feedback that you're getting, what has been the predominant view in terms of what's being expressed by both strata managers and also by lot owners?

**Amanda Farmer:** Yes. Those in my circles pretty much subscribe to the view that you've expressed. Reena, even though they may be at the moment receiving commissions, acknowledging that that's not a sustainable model for a profession. If that's where strata management is going to go and that needs to change. At the same time, accepting that those who move first in the absence of any legislation mandating this, those who move first are going to be punished by the market, at least for a short time, because they are going to have the higher management fees on the face of the agency agreement because they're not being subsidized by commissions.

That is probably most of what I've been hearing. So there's this sort of tension between we really want to step into this space that the professionals are telling us we need to step into but we have to be pushed because we all need to do it together. I commented on a LinkedIn post. It might've been Michael Tease sharing the position statement from the Australian College of Strata Lawyers. And there was a bit of discussion under that post, some strata managers disagreeing with it, other strata managers agreeing with it.

And it's been pointed out a couple of times now, including by me, that this is an incredible marketing opportunity for those managers who are conducting themselves professionally, who don't take third-party payments, whether those are disclosed or not. And I was questioning in these comments under Michael's post, are there any strata managers out there who operate on a no commission or we rebate the commission to our clients as a rule? Are there any strata managers out there who do that? Because the silence was deafening from my perspective. I wasn't sure there were any out there.

And in response to that, I did hear back from at least two management companies, one who said for the last 13 years, we have rebated all commissions to our clients. We just operate on fee for service and another management company that said the same thing. So I think if you're a manager out there now, you've got owners with ears wide open to that message and appreciating that message from the owner perspective, you know, you're seeing and hearing on my Facebook page.

Less so in our member forum because the members in the forum are a little bit more educated on strata issues. But in the public spaces, you're just seeing exactly what you opened with Reena, this dragging down of the industry into the mud. This, you know, we knew this was happening. Now we're seeing it come to light. This is everything that we've been complaining about. We need change. We doubt we're going to see it. They'll just keep rotting us, all of that awfulness is definitely out there. And it may well be the reason why our government, state government, needs to take a really strong position on this and push that necessary, I think, legislative reform through to really draw a line in the sand.

**Reena Van Aalst:** Yes, I agree with you, and I think that's in a sense, perhaps this has brought out the fact that we can now go when people are asking us for quotes, we can now say with some confidence that this is insurance commission. This is how you imagine it would look like. You don't want insurance commission. And now there's more consumer awareness of how it's working. But unfortunately, I think, you know, not many companies have an insurance brokerage.

That's quite a rare thing, I think, in the market. There is another large company that has some sort of ownership structure, which is very well-kept in terms of how it appears. I'm not sure. Again, rumours I've heard about that. So I think that, fortunately, it will make it easier for managers to be able to go out to clients now when their agency agreements are expiring and saying, do you want a different model? Because it does exist if you want it. And when it doesn't exist for everybody, it'll be the great, the best thing out.

**Amanda Farmer:** Yes, we'll avoid that stretch of the brain. I will be punished. I know Reena, if I don't ask you about this, there has been a bit of talk around the circles about lawyers and lawyers who are making promises, paying benefits to strata managers for, I guess, preferring them for sending them their owners corporation work for being the only lawyer or being on their panel of lawyers. That's never been a world that I've been involved in. I haven't seen this in black and white in any contracts or agreements between

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lawyers and strata managers or lawyers and owners corporations. Do you see this? Where are lawyers in this playground from your perspective?

**Reena Van Aalst:** Yes, well, I mean, there's actually a strike management company that actually advertises a lawyer on their website. And I know that that manager actually gets a lot of work from that particular manager and vice versa. So, yes, again, there are many rumours about this type of practice, Amanda. I haven't seen it personally, but I've heard about it from people that I know in the industry and also.

Yes, just again, it's unfortunate that there is that sort of element of practice out there by some strata lawyers that are working on the ignorance of strata managers in terms of these matters and offering them inducements, etc. Which I think again is very damning of the industry in terms of the lawyers and in terms of the managers who are taken in by such practices. And again I think there's a lot more that will come out of Amanda, in terms of not just this particular instance. There are other companies out there that have the vertical integration model that are putting pressure on their managers in terms of using these companies, et cetera. Yes, I think there's more to come, I think, in terms of this sort of stuff coming out.

**Amanda Farmer:** More to come and watch this space. That is where we're going to have to leave it. I know that you are rushing into something else and I appreciate you being available at short notice. Reena to speak to and with our audience. We shall see what comes next. We'll stay strapped in. See you next time Reena Van Aalst. Bye.

**Reena Van Aalst:** Yes. See you next time, Amanda. Bye!

**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 [yourstrataproperty.com.au](https://yourstrataproperty.com.au).