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YSP Podcast Transcript: 432. An insurer's perspective on a tough year in strata:
Paul Keating

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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 to this week's podcast episode. I'm your host, strata lawyer Amanda Farmer, and my guest this week is Paul Keating. With over 30 years experience in insurance and financial services, Paul co-founded Strata Community Insurance, known in strata circles as SCI, in March 2014 and is the company's Managing Director.

Prior to this, Paul spent 8 years as managing director at CHU and BCB and 13 years at Zurich Financial Services. Paul's work in the insurance markets of the U.S, Canada, the UK, Switzerland, Japan, Hong Kong, Singapore and the UAE. He holds an Executive MBA from the University of New South Wales and is a Senior Associate of the Australian and New Zealand Institute of Insurance and Finance. Paul is also a Fellow of the Australian Institute of Company Directors and Associate Fellow of the Australian Institute of Management and Chair of the Strata Working Group for the Insurance Council of Australia.

Amidst all of those accolades, I have to say one of the biggest achievements for Paul Keating, in my eyes, is that he was my guest on Episode Number 119 of this podcast a few years ago. Now, Paul joined us to share practical tips for reducing risk in Strata and we had a bit of a chat about the concept of unlimited liability for Strata owners. Head Back to Episode 119 if you'd like to hear more from Paul after today. Right now, I'll take you over to my latest chat with Paul Keating of SCI.

Paul Keating, welcome to the show.

Paul Keating: Thanks, Amanda, Pleasure to be with you.

Amanda Farmer: Great to have you back here with us. I think it's the second time we have had a chat on the podcast and you are the first insurer, I'm going to say, on the show since the media maelstrom began this year, 2024.

So that's where I want to start. I want to start with your thoughts on all of it. Do you think, Paul, that the strata management industry has a problem with its remuneration model?

Paul Keating: Big question. And I think, look, there's many factors to address and I'd like to just take a bit of time to go through a couple of them.

Amanda Farmer: Let's do it.

Paul Keating: The first thing I'm going to say is to all those strata managers listening on the last to be lecturing how you should be addressing your own business issues. But with that, obviously, we have a fair role to play across the insurance sector and we form views and I'll share some of those views.

There's no doubt, you know, for me, brand strata management has been damaged as a result of what we've gone through. That's not a good thing. You know, consumer confidence has been impaired and I think customers and other industry stakeholders are asking the right questions.

So, you know, there are things to be addressed. And I'd start probably firstly with what everyone kind of knows, that strata management businesses really aren't making a lot of money to be sustainable over the medium to long term. So something does need to change. I worry about the future, Amanda, in the sense that I can see without a lot of change, we could very well be in the next decade or so. There'd be far more schemes than there will be managers.

And we'll be at a time when owners then are going to be most vulnerable, where schemes won't be able to find or secure strata

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management services. I do believe that because it's a tough industry, there's a lot of burnout, as you've talked about many times on this show.

And it really comes down to making sure that the strata management companies are well capitalised, they're making good profits and they can reinvest those profits back into their people, their systems and process to be able to deliver value to strata owners over the long term.

I mean, that's ultimately what it needs to be. So I think those schemes that have got active committees will work out, they're very smart, they'll work to find the best managers and they'll try and lock them in. And if they're smart, they'll probably pay them a little bit more to make sure that they will get those priorities and service those ahead of any particular changes. Particularly if you're happy. I think if you're happy with this strata manager, do what you can to lock them in, because they're exceptionally valuable.

And I think when it comes down to it, I think strata management companies also need to be working with schemes and owners who align with their values, rather than just taking any scheme at any cost. And so I think there will be a shift over that period, but without it and the trajectory that the strata management industry is going in in terms of decreasing margins, the impact is going to be on owners, ultimately. So it's in us all interest to keep that sector healthy and vibrant, but it does need to reinvent itself. Yes, yes.

Amanda Farmer: So do you think there is still a role for insurance commissions in the reinvented strata management model?

Paul Keating: Yes, I do. And for me, I want to address that specifically because I think there has been some really ugly stuff. There has been some systemic issues that have been happening by some. And, you know, that's well known, but I look at insurance commissions and what they actually do in its purest sense, you know, they are allowing for particularly smaller schemes, they're allowing schemes to access advice, to access coverage, to access protection.

And I'll go through some of those points during our discussion, but they also offer for particularly fixed income retirees, a fixed cost choice, so that once they've paid their insurance premium, that's it. There's not any further fees that are coming through. And so, you know, I think, you know, many years ago I came across a small 4-pack that had four retirees and they're just pleading with their strata manager to just to keep their costs down because their pensions are only indexing, you know, around 1 or 2% per annum.

But ultimately it's really up for owners to decide whether they think commissions are right for them or they prefer a pure fee-for-service arrangements. That's why can't we offer choice and allow them to choose which way they want to go down; rather than sort of prohibiting one form of revenue to the advantage or disadvantage of another?

So I think we'll pick on some of those topics as we go through here, but I think that should be part of the mix. I think the problem that we've seen emerged since, I think 2016, when the amendments went through in New South Wales in particular. And Section 166, which is this well discussed 3 quote rule, or the perceptions of the requirement for strata managers to get 3 quotes or give reasons why they get into free quotes. You know, since that inception, we've seen quite a dramatic shift to the use of brokers to help comply with that requirement. And that's not a bad thing.

But it comes at a cost and it's come at a massive cost and it's come at the creation of business models that have been a little bit opaque. And there's been fee-sharing arrangements and cooling of commissions and fees. And all of that's happened during a time where those arrangements have not been transparent. And it has left people uncertain, it's left people concerned.

And I think that some of the moves to really bring transparency to the forefront of insurance transactions is to be applauded. It really needs to be very open, very transparent, so that owners can make a choice about who they want to use for insurance intermediation, whether they want to use their strata manager, they want to use their strata manager and a broker. By the way, if you're using a broker third party, it's going to cost more that's not a bad thing, but just be aware that it doesn't come for free.

So there should be a range of choices on intermediation, distribution, if you like, as well as the choices that they have between

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insurer A, B or C, depending on what terms they can get. So I'm all for market competition because I think market does ultimately lead to more efficiency over the long run. But our market, as you know, is structurally imbalanced at the moment and I'm not sure that some of those mechanisms. I think Section 166 has been a problem because it's really a focus on volume as opposed to value and quality.

Amanda Farmer: Let's talk about that. For our listeners who may not be familiar, Paul is talking about Section 166 in the New South Wales Strata Schemes Management Act. And that's the section that requires a strata managing agent to provide an owners corporation with no less than 3 quotes from different providers for each type of insurance that the agent is proposing to the owners corporation. And if they can't get those three quotes, they have to provide written reasons why they can't get them.

Now, Paul, your memory's better than mine. You're saying that section was introduced with the 2016 reforms or when our current Act commenced. And just explain for me the effect that that's had. So you're saying that's brought in a bigger role for brokers because they've had to assist to get those 3 quotes, is that it?

Paul Keating: Yes, yes. In short, it's been a massive workload that I guess that's been imposed, if you think, on all strata managers on every scheme. And why I say it's bad law, because I think if it was good law, the obligation would be on the owners corporation to get multiple choice. Right?

Amanda Farmer: Yes.

Paul Keating: So they actually asking a strata manager, it's not a broker, just a strata manager, not a building manager. It's not the owners corporation, more importantly so. And I have a problem because I know they brought it in to try and address some of the practices that were going on by a few markets.

But the problem is when you would apply that across the whole market, you have this multiplying effect. 90,000 schemes in New South Wales alone, trying to get 3 quotes on them every year. It's just impractical and it has to come at a cost. And owners have been bearing that cost and they probably aren't aware of that cost because of that period of the lack of transparency around these insurance arrangements that have been happening between managers and brokers. And I'm all for opening that right up, showing people how much it costs.

And by the way, some schemes that have a lot of problems, they should be paying a lot of money for broker service or maybe strata management services, and they probably should be paying a lot more than a good scheme that's very clean, well managed. So I think over the time, if you encourage competition in the intermediated space, you encourage competition in the insurer space, we have competition in the strata manager space. I think that creates, over the long term, will create the efficiencies we need to see, provided that it's transparent.

Amanda Farmer: Paul, have you made, Has SCI made any changes to the way that it does things since the ABC's reporting? Or have you heard generally in the industry that insurers are doing things differently? Or do you sort of see, look, this is not our problem, this is a strata management problem. They've got to sort it out. We'll just keep on.

Amanda Farmer: Yes, well, the problem for me is that in one way I could say that it's not our problem and we could walk away, but that's not how we operate. The reality is, I think brand insurance gets damaged as a result of this. So I guess we've been doing a lot of advocacy.

Has there been some changes? Yes. For example, we have gone into a number of brokers and we have said that we want to do an audit, a review of how you're presenting our terms to strata managers and to owners. So we wanted to get some confidence that they're representing our terms. After this ABC event, we wanted them to be confident that we could say to people, "Yes, no, no, no. XYZ brokers, we've done a review, we're happy with the way they're presenting terms." We can't be over all the time. Once we prepare our quote and we send it out, how that gets presented to owners is not within our control. We don't see that.

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So we've been heartened by some brokers who have embraced that and we're doing those reviews now and some have been a little bit, I guess, struggling with the concept for us, having a bit of a look. But ultimately what we want to say, if someone rings us, an owner, a strata manager, whoever it might be, we can say, yes, we know that broker, we're confident they're representing our terms in the right way. So that's kind of the main piece that we've certainly taken.

But the rest of the industry, no, I think at the end of the day, we're still struggling under volume, struggling to try and get the efficiencies and the turnaround, it's still hard. We get a lot of quote options that come into us only a week or two before the due date. It's very, very hard to turn that around on a complex risk.

And so sometimes owners are saying that Strata Community Insurance didn't provide a quote. Well, it's not that we didn't want to provide a quote, we just didn't have the time to provide a quote. So there's two different things.

Amanda Farmer: And look, while I say I haven't spoken to insurers here on the show, you know, I've spoken to some people informally, I've spoken to brokers and there's a little bit of finger-pointing going on because I hear from the brokers, we're getting a delayed response from the insurers. And then I may also hear from strata managers that there is a wait to hear back from the brokers and then I hear from owners.

Well, we never hear from our strata manager until we're suddenly 2 days before expiry and then all of these quotes fly in. We don't know when our strata manager sought that quote. So perhaps the instructions coming late from the strata manager. I mean, give me your perspective.

Paul Keating: Oh, look, you are correct. 100%, all of that is correct. But there's a difference, because if you have an underlying expectation that every broker can get a quote from every insurer, it's unrealistic. So, for example, in our case, we don't deal with all brokers, by the way, we don't deal with all strata managers, we deal with the majority, but we can't service them all properly. So we pick and choose.

I guess some of those intermediaries may not be as open with owners potentially of the relationship we may have with them, but I think it's an important discussion point. So we have some brilliant relationships and we have some questionable ones and like everything else, some of those relationships go really well and then they might deteriorate. We might put more effort into other intermediaries to do their work, to do their buildings, to do their quotes.

So one thing for sure is we know that we have to pick and choose. We cannot do every scheme every year across the country. It's just impossible and it won't happen. So I really encourage owners, when you see that the quote is missing, to have a discussion, ask why and try and dig in a little bit deeper to know what's the reason.

And it is a lot of these things are late brokers are struggling with the volume. That's what I'm saying. I prefer them to do less and do more on risk and risk management with a scheme and try to address risk, lower risk to get better premiums than running around the market and trying to get three, four, five quotes every year. It's ridiculous.

Amanda Farmer: Right. You're saying that's not the best use of a broker's skill.

Paul Keating: I don't think they're in this unique position where they can really help owners drive down the profile, the risk profile of their building, to encourage the maintenance and repairs to be done, to present a very good case. And one thing I know is when insurers have to confidence around a building, they want to stick with it. You will get the best prices and they'll choose those and they'll do those first over schemes that have problems, legacy issues that are not being addressed.

And sometimes our guys, even human behaviour people will see that complexity. They go this one again and I'll stick it at the bottom of the pile. And quite often they won't get to it for that simple reason. So I really plead with owners, the quality of the risk, how that's presented to insurers will dictate how much attention you get and when you get that attention.

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Amanda Farmer: So it would be possible, or I suppose I'm asking is it possible and maybe it's brokers out there who might want to get in touch. And let me know to engage a broker and pay them for this service to come in, have a look at your building, have a look at your risk profile. And give you some recommendations for how you might perhaps next policy term, reduce that risk to get a better deal. Again, it's that proactive rather than reactive.

Paul Keating: That's correct. So there are a number of brokers that offer that as a service. Some of them will engage a risk specialist to come in and do that independent report. I know one broker that won't take on a scheme unless that report has been done for their own personal risk. But ultimately out of it, they know how to position and to better represent that building.

And importantly, you know, I think it's important to say that insurers will listen to a story. So a building may have some problems, but if there's a really good action plan and they're going to raise the funds and they're committed to do it, most insurers will be patient over that two to three-year period where that remediation needs to take place. But if you say you do it and you don't do it as we've experienced in a number of schemes. Once again, when you say I can't get a quote, there's a reason for it.

Amanda Farmer: Is it possible, Paul, for owners to go directly to you without that intermediary of a broker or even a strata manager and get a quote direct from SCI?

Paul Keating: Yes, look, so we are a little agnostic when it comes to distribution in the terms that we won't just deal with brokers or just deal with strata managers, we do deal with direct and I guess over my experience that's worked best and it's worked sustainably generally with self-managed schemes. So your smaller schemes, sort of the two packs, three packs, where you know, owners are collectively managing them without the service of the strata manager.

I think where you do have those professional services with a strata manager there is a really important and Reena touched on this around a risk transfer, risk protection mechanism by engaging your strata manager and maybe their broker, depending on what you want to pay for but to engage them.

Because once they've been delegated that responsibility in arranging insurance and working with the broker or working with an insurance agency like ourselves, they have to be a representative, they have to be appointed as a representative of us as a financial services licensee. But with that comes some protection. There's risk transfer, but we have to supervise your training, we have to supervise your competency, we have to play a role in providing insurance coverage where you've acted within your authority and something's gone wrong.

So there's, I would say that, you know, to owners there is kind of like a risk protection mechanism built into that relationship. And I think Reena summed it up pretty well the other day when she spoke to you about it. But it is a choice. You can come direct. I think what I would encourage owners, if you are unsure about a particular insurer and the terms, why don't you just ask firstly your strata manager or your broker and say, "Look, can you show me the terms you got from the insurer?" Just say, look, we just want to see what they presented to you, how they presented it and get some confidence that they are doing the right thing and they are representing the terms in a fair and accurate way.

Amanda Farmer: I think this question about whether owners can go direct is coming up more and more, at least in the circles that I operate in, partly because of the ABC's reporting and the more recent report. I think maybe it was off the back of the Four Corners September Episode. That report included the experience of an owner who apparently, I'm going to say Went direct to you, to SCI, to seek a quote and found that they received a quote that was over 3 grand cheaper than what the broker had presented with the message that go direct to the insurer and you'll get a cheaper premium. Is that true? Is that a common outcome? Is that what owners should be expecting?

Paul Keating: It's a great question. So is it a common outcome? No, I think it's worth just talking through that particular situation because without giving away any commercial sensitivities. But yes, the building itself, we were approached by the broker, we provided a quote to the broker. And in that situation, our terms weren't presented. In actual fact, there was a commentary on the report that just said that we had withdrawn our quote. So that wasn't accurate.

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It was just by chance that one of the committee members knew, one of our employees rang through, was told that you didn't quote, why did you withdraw the quote? And he says, "Well, we haven't withdrawn the quote." The quote's there. He said, "Can I get a quote?" So he approached us for a quote, filled out a form, actually went through it, and essentially we presented pretty much the same quote that we'd given to the broker, same terms, there was a slightly different deductible, so there was a few dollar difference in terms of what it looked at.

But essentially he's arrived at the meeting and said, "Well, I got the quote from Strata Community Insurance. What's the issue?" So that's what happened. But it was really around not understanding, and perhaps the communication between the manager and the broker wasn't effective enough around the reasons why they didn't get a particular quote.

And in that particular circumstances, you know, I think we found out that there's some other arrangements in place that no longer apply, that if that circumstance happened again, I think it would be totally different.

I think we find that there'd be full transparency around what we put forward. So I think there's been a lot of work done in the last, you know, since that noise. A lot of people have been checking what they're doing, how they're going about it.

We're hearing about broking fees coming down, owners starting to save money, so there is momentum in a shift. But we do have to get all our owners and consumers confident about the insurance arrangements they've got in place, and that's ultimately what we need to work towards.

Amanda Farmer: So you've talked a little bit, Paul, about the risks of owners not having their strata manager or a broker assist them to place their insurance. The benefits not necessarily a cheaper premium. We're talking about anything else that you want to touch on there in terms of pros and cons for anyone thinking about going it alone?

Paul Keating: Yes, look, I think there's the way I would encourage it in particular if you've got a complex risk. I kind of had meetings with chairman before that have come in with their strata manager, with their broker. And actually come in and personally talk through what they're doing with their particular building to help remediate to actually address some of the risk issues.

Ultimately over the long term you might have some short term swings in pricing, but over the long term, pricing, insurance pricing reflects risk, it really does and you can't hide from that. And ultimately everything that owners can do to present in an open and transparent way their risk in the best light, they're going to attract the better prices...

Amanda Farmer: While still being accurate and providing full disclosure.

Paul Keating: Providing full disclosure and you're exactly right because unfortunately there is. I don't know what it is Amanda, about our society, but insurance is seen as a fair game. Do you know what I mean? Like, and people want to have it, when it comes to client, they want to have a crack. Oh, it's the insurer, we've got to have a crack, see what we can do, see what we can get over them.

And again that's a generalisation but you know, it philtres into our dealings unfortunately all the time. So that cynicism is there. and we've got to do more as an industry to have people more comfortable about it. But the bottom line is if you misrepresent the risk and a claim happens and you might get away with it for one year, but a claim happens in year two and we're still on risk, we come out and see that you've misrepresented, that will cost you the claim.

We have the right through that non-disclosure because that's a deliberate act or called, you know, a fraudulent non-disclosure, not an accidental non-disclosure, we have the right to reject that claim. So that means that the whole entire owners corporation are going to have to fund that reinstatement on their own. That's not a situation that we want. We've had that before because people have been cute about how they've disclosed the information.

Amanda Farmer: So super risky there. If you're getting that part wrong.

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Paul Keating: You have to be. And we're not talking about little things that it's. But generally people know that there's maybe some problems with the building and they're not being transparent with that. They're not being open about those problems, it will get found out.

Amanda Farmer: Paul, I was at a meeting a couple of weeks ago where the owners were looking at quotes to renew their policy for the upcoming year. and the premium quoted by two insurers. A number of insurers were approached and only two were able to provide a quote. The quotes were 20 grand difference when it comes to the premium.

And now that we have the disclosure items and for SCA NSW members they must disclose the 8 items, it's very clear on the quote what the breakdown is. And in this particular example it wasn't the broker fee or the strata manager commission or fees and levies and services. It was the actual premium that was just hugely different. Would there be a reason why two insurers in the strata space would be quoting a building at polar opposites? Is that the case? That one insurer just doesn't get it or.

Paul Keating: The reality is two individuals can see a particular risk in two different ways even given the same information. We all have preconceived biases. You know, an insurance company will have a set of rules or have a set of guidelines, we'll have a set of rates. But we give our underwriters a lot of flexibility around how they dig into the risk, the risk acceptance process and what terms they want to put on it.

So there are pricing parameters, but it may be that one underwriter understands the historic, you know, so we've got data going back 10, 15 years. And sometimes once bitten, twice shy. Right. So they may.

Amanda Farmer: Now that you say that, I think the insurer that did have the more expensive premium was, was one that had covered this building in the past.

Paul Keating: And that does come into account. And that's why ultimately it's people will see risk in different ways and they'll price it the way that they see it. That's why I say price does follow risk ultimately. But you will see those swings and that's why from time to time it is healthy to get alternative options to see what pricing's like.

But I just don't think that should be every year. I'd love to have a longer term insurance contract. I'd love to have a three-year contract, for example.

Amanda Farmer: Interesting. I'd love to do that.

Paul Keating: The biggest challenge is that we have as insurers is reinsurance. We have to renegotiate reinsurance annually. Very hard to get reinsurance contracts over a longer term, which is why most insurers sort of are locked into this annual renewal process which quite frankly is a waste of cost and money. When you really want to have as an insurer, you want to hold a risk for a certain length of time to be able to make money.

Amanda Farmer: Interesting. Haven't heard that one before. We need to wrap up. Paul, it is always a pleasure speaking to you and thank you for taking the time. I said it earlier. I do have people reach out to me who are in the insurance space, who are brokers. I always invite them if I think they have something valuable to share, to come on the show and share it with everybody. Not everyone takes up that opportunity, so thank you for doing so.

Paul Keating: Can I just finish with one comment, if you don't mind? Because I just think this debate that's going on at the moment around insurance commissions. Remember, there's a confidence crisis, I guess, with strata management and everyone points to NetStrata and then people talk about insurance commissions.

Just in the NetStrata example, NetStrata, nor Strata Insurance Services, their insurance brokerage that they owned received commissions. Insurance commissions, they declined them. So whatever the problems are and whatever the lens, we're seeing the broader issue through strata management, what I can say is it's not always related to commissions, as we've seen in the NetStrata

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case.

So I just encourage owners to ask more questions. We're getting greater transparency with the recent reforms. You know, the best practice guide, people, I think owners are seeing insurance quotes broken down far more granularly now, which is fantastic. Been after that for a long time.

And so I think that over the next sort of 6 to 12 months, we'll see confidence improve in that area. And owners, I just encourage you dig deep, ask the questions, get confident about the options that you have in front of you before you make a decision.

Amanda Farmer: Thank you, Paul Keating, for joining us. If there is anyone tuning in who wants to reach out to you or to SCI, where's the best place for us to direct them?

Paul Keating: Yes, so the website has it all, like most businesses. So stratacommunityinsure.com.au or SC Insure, either way, you'll come to our website and you'll see our contact numbers, people. There's a whole lot of resources on there too, some guides, other bits and pieces that we have there for people to utilise at their will. So please have a look and come and talk to our team.

Amanda Farmer: Fantastic. Thanks for joining me, Paul.

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 yourstrataproperty.com.au.