

Publication Date: 23 October 2025

YSP Podcast Transcript: 466 - Why Strata Fees Shouldn't Rise When Commissions Fall

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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 have a guest for you this week, and his name is John Trowbridge. John has had a distinguished career as an actuary consultant, executive company director and regulator, working mainly in financial services with an emphasis on insurance-related businesses.

John founded Trowbridge Consulting in the 1980s, merging with Deloitte in the year 2000. In 2025, John was awarded an Order of Australia Medal for services to business, the risk management sector and the actuarial profession. Now, in recent years, John has completed a substantial independent review of Strata Insurance, and if you recognise his name, that may be because we've had him on the show previously. To unpack this review for us.

Episodes 349 and 350. That was a two-part episode unpacking the first two phases of John's research. That is possibly the only two-part episode we have ever done in nearly ten years of the podcast. In those earlier chats, John is walking us through the history of our Strata insurance sector, including how brokers came to be involved and why commissions and broker fees became so firmly entrenched in our system.

John talks about the lack of transparency around commissions and broker fees and why that's not only a problem but a source of conflict for our strata managers. He also speaks about how we might solve that problem and avoid that conflict, explaining why we need to step up and change the way we do things now before government intervenes. Now bear in mind those chats were now a couple of years ago.

I also invited John back for episode number 370 to share the findings arising out of the third phase of his research that was about affordability, availability and competition in Strata Insurance. Now you'll hear John mention his earlier three reports in this upcoming chat today. And we do have links to John's website in the show Notes for this episode, where you can click through and check those reports out if you haven't already.

I invited John back on the show now after reading a media release that he put out shortly after SCA New South Wales announced that its members would no longer be accepting insurance commissions from from 1st January 2026. Being the expert in this topic that he is, I wanted to bring you John's predictions for how all of this is going to play out. His media release - a one pager - is over there in the show notes if you want to go and have a read of it.

In it, John outlines his four practical steps that he says should now follow SCA New South Wales decision to phase out insurance commissions. Now, you're going to hear me mention this in the chat, and I asked John what those four steps and I think we only get to cover maybe the first one or two because we do end up down a bit of a rabbit hole. Something of a healthy debate, I think, about whether or not insurance premiums will actually go down when commissions are taken out of the picture.

I think that discussion is going to be interesting for a few of you. But just to close that loop for you on the four steps, if you're listening and wondering what they are. Firstly, John is calling for underwriters to reduce premiums by removing built-in commissions. Secondly, brokers need to adjust their fees to reflect the value of their own services. Thirdly, fee-sharing arrangements between brokers and strata managers need to be scaled back, says John.

And finally, strata managers will replace lost commission income through fare increases in management fees, which will be funded by owners with the savings the owners are making from lower insurance premiums. Nice little virtuous cycle there. Together, John says these changes will create a more transparent, sustainable and conflict-free strata insurance system. Now, John and I absolutely do get into all of that in the chat, but I thought I'd lay it out for you right up front here, as I know this topic can get a little bit complex once you get into the weeds

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So with that all set up for you, I will take you right on over now to my chat with John Trowbridge.

Amanda Farmer: John Trowbridge, welcome to the show.

John Trowbridge: Thank you. Amanda, good morning to you.

Amanda Farmer: Great to have you back on the show. We have chatted previously. We were just saying off-air. There's been a lot that has happened in between drinks. So I'm glad that you could be back here with us. You have recently, John, and publicly congratulated SCA New South Wales on what you've called a courageous move to phase out commissions for strata managers.

Let's start there. Why is this change so significant, and why do you think it's happening now?

John Trowbridge: Well, it's significant because it's something that quite a few people have been looking for, and the State Government, the New South Wales Fair Trading Department or Strata Commissioner has signaled that these changes will be going through legislatively. But they haven't yet, and there's been a delay there. I think it's fully a year ago, I think, Amanda, when you and I first attended one of the sessions that Natasha Mann, the Commissioner, set up, and we all thought that the legislation would be coming in before now.

Well, it hasn't. And as I think many people know, there's the New South Wales Productivity and Equality Commission is having a look at all this before legislation is prepared. Anyway, the expectations were raised, were they not? And what we know is that many strata managers and brokers, and some owners have been talking about this and some of them have taken steps themselves in advance of legislation. But the delay has essentially appeared to create some confusion.

People don't know whether it's coming or whether it's not, whether they should try and work with it now, even before it comes, which they're free to do, or, I think, in some cases, trying to play around and find a way of not having to participate in it. I think the reason it's come now by the SCA is just because of that delay and that desire - well, firstly, as I read it, an acceptance that it's a very good thing to be happening.

And secondly, the delay is such that they took it on themselves on a self-regulatory basis to move on. So I mean, that's perhaps a long way of saying why it is and why it is now.

Amanda Farmer: And you've called it courageous, John. I know. And as our listeners may well know if they have tuned into our previous chats, you've been calling for reform in strata insurance remuneration, I'll say, since your 2022 reports.

Can you remind our listeners what your key recommendations were back then and how this SCA move now fits into that bigger picture?

John Trowbridge: Okay. Well, I did three reports in 2022. The first two were about remuneration, and originally, they were going to be just one report, but it became obvious as I started that process that the first step that needed to be taken was all about disclosure. And that's what it was.

It was the idea that the owners and the strata managers, and brokers should all fully understand and disclose to each other just what the remuneration is and how it works that was not in place beforehand. Having put out a set of recommendations on that, I then went to the next stage, which was to have a look at the substance of those remunerations. And that's where the idea of the sharing of commissions and broker fees between brokers and strata managers took a major step forward.

And that's where I made clear, I think, what the conflicts of interest were. I tried to. And the whole aim of that second paper was to open up the remuneration issues as a question of how much and how. Whereas the previous one was solely about disclosure, the third paper was labeled a blueprint for affordability and availability. And if we go back three years, you'll remember how much

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anxiety there was around strata insurance, as well as other kinds of insurance, about the fast pace of increases in premiums and when that was happening.

Of course, that had flow-on effects to brokers and strata managers too. So there was a lot of anxiety around that and concerns about availability, as well as affordability of cover. So that's what the three reports were about. And what we're talking about today is essentially the second one - that is having got through disclosure. And the New South Wales government legislated that with effect from the 3rd of February, I think, wasn't it, Amanda?

Amanda Farmer: Yes, nice one.

John Trowbridge: So all strata managers and brokers, or not brokers, because they're not part of this under the state law, but the strata managers are now obliged to disclose a whole lot of things that some of them were doing before, and now they all have to do it. And it's similar, it's not identical, but it's pretty close to the sorts of things I recommended back in 2022.

Amanda Farmer: And you've said there, John, that second report was focused on unpacking how strata managers are sharing commissions and broker fees with insurance brokers and why that posed an inherent conflict of interest and a potential breach of fiduciary duty. We'll certainly be encouraging our listeners to go over and read that report, but can you in a couple of minutes for us, explain why? Why that sharing of commissions and broker fees between strata managers and brokers poses, in your view, a conflict of interest?

John Trowbridge: Well, the client is always the body corporate. But the way that these fees or commissions and fees were set and shared between broker and strata manager were done, have been done, are being done in many cases without consultation with the owners, with the strata committee and its members. And that's where the conflict arises because the decision should be made, of course, by the owners. But in practice, the owners were in very many cases, presented with a fait accompli by the strata manager after negotiation between the strata manager and the broker.

One of the reasons it was a clear conflict in many cases. Sometimes it's not a very clear conflict. And that depends, as you know as a lawyer, just how conscientiously the players involved go about meeting the best interest duties of their owners. But what has happened a lot is that the brokers would say, a broker would say to a strata manager, "Can I help you with your broking?"

And the strata manager would say, "Well, yes, may say, yes, I'd like to appoint you, but you need to give me a share of your commission." And the broker would then say, "Well, if I give you a big share of my commission, which is what the market practice has become like, you know, in many cases, live in the whole lot, then you need to arrange a broker fee for me."

And that broker fee, of course, is not part of the premium. It's something that is paid by the year owners corporation.

Amanda Farmer: Nice summary. And it leads us to the question that I'm hearing many in our space ask. What happens with the role of the broker and the broker's fees, and the sharing of this commission? Now, now that SCA in New South Wales has said from the 1st of January 2026, our members will not be able to receive insurance commissions.

You know, that's the broad term that's being used, insurance commissions. You put out a media release, John, a few weeks ago, and I'll include a copy of this in the notes for today's show. And you answered this question. You've outlined four steps that you think underwriters, brokers and strata managers need to make to make sure this change works and at the end of the day, is for the benefit of the owners, the client.

Can you walk us through those four steps and why you've come up with those, how they're each critical to the success of this reform?

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John Trowbridge: Okay, well, let me start by making it clear that the word commission here is used frequently in this context to mean commission plus broker fee. It's a pity that that's occurring, and it's partly brought about by the fact that the state government legislation defines commissions as including broker fees, but they're different.

As you know, the broker fee is paid directly by the client, but the commission is paid out of the premium. So if we go to eliminate the commission shares to strata managers, then the brokers need to either hold commissions themselves, but I don't think they're going to do that because they charge a broker fee anyway. The logical thing to do is for the broker to say to the underwriter, "I want you to give me a net premium, not a gross premium."

That is a premium that's net of commission instead of including commission. That's open to hard-fay and done increasingly, it's open today to every broker, usually only on the request or instruction of the strata manager to seek no commission. So when there is no commission, it takes 20% off the premium. And that's standard because the 20% is standard. So that's the first step, is to take 20% off the premium.

In other words, ask this underwriter for a net premium, net of commission. What that does is eliminate the need for any commission share to go to the owners. But what happens in today's market is that, and there are quite a few - especially amongst with larger premiums - quite a few cases where there is no commission today, but the broker fee is shared between the broker and the strata manager, typically on a 50-50 basis or a 40-60 basis.

So, for example, if there's no commission but the total broker fees agreed to be, say, \$10,000 on a \$100,000 premium, then the broker would hold \$4,000 or \$5,000 of that and give the other \$5,000 or \$6,000 to the strata. The legislation will say, and the SCA requirement says that share of broker fee should be done away with as well. So we end up with no share of commission and no share of broker fee going to the strata manager.

Now, that should not be interpreted as a means of cutting the revenue of brokers and strata managers or the net revenue. It should be seen as a switch from the funds coming through the broker and from the underwriter to the funds for the strata manager coming directly from the body corporate or the strata committee to the strata manager and the broker. In these cases, then, because the strata managers won't be allowed to receive a share of the broker fee, the logic is you just reduce your broker fee.

Amanda Farmer: Yes. This has all started, John, with the. I don't know if it's the assumption, the wish, the hope that the Insurer, or the underwriter, as you call them, are going to reduce those premiums by, you know, potentially up to 20% of what the commission used to be that they were paying. I mean, is that going to happen? That's what I'm hearing in these conversations is yes, right, that's never going to happen.

They're not going to be reducing their premiums to cater for the fact that they're no longer having to pay these big commissions. What do you think?

John Trowbridge: Well, let me ask you, who are the people who are saying that and why do they think that?

Amanda Farmer: Well, strata managers, brokers, owners, our premiums are not going to get any cheaper.

John Trowbridge: Well, the brokers should know better. The broker. Every time a broker seeks a quote from an underwriter, I keep saying underwriter instead of insurer because, as you know, most of the people underwriting this business are underwriting agencies.

They're not the insurer. But it doesn't make any difference to the people buying the insurance as it is today. The underwriter will, when asked for a quote, will typically include commission of 20%. But they don't have to do that, but they do it because that's the historical practice. But if the broker says, "Would you give me a net premium, that is a premium of no commission," then the quote immediately changes, reducing by the 20%.

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And one thing I know about disclosure here is that the brokers receive an invoice from the underwriter. The underwriter will. I've not seen a case where the underwriter fails to disclose how much commission is included in the premium. So the broker receives an invoice from the underwriter, and that invoice will say that it'll just give the total premium, and then it'll have a note at the bottom, usually says commission 0% or commission 20%.

The brokers all see that. They hardly ever show it to the strata manager or the owners. Not because they can't, but just because that's been the practice. And unless the strata manager asks to see the underwriter's invoice, the strata manager won't see it, and therefore the owners won't see it. But it's hard for me to understand how you would think that in a market where some underwriters are definitely going to cut their premiums by 20% when there's no commission.

How can some other underwriter include a commission and still have a competitive premium?

Amanda Farmer: Yes, so I suppose the point that's being made is not so much about they're still including the commission when they're asked not to. And I follow how that works in practice. The broker just says, "I want this to be ex-commission." Something I have heard is that insurers historically have been paying commissions to brokers for a reason. Right?

So that the broker comes to them and seeks their quote. You would be more across this than I am. But insurers who are now no longer paying commissions to brokers, maybe their costs, costs are going to increase. And I'm talking about their costs of marketing, their costs of trying to get in new business. Because this relationship, this very happy relationship with the brokers is now changing. I've actually heard that from insurers.

You know, our premiums may not decrease because we're going to have other expenses that we haven't had before. And marketing has been one of those mentioned. So it's not so much. We're still paying commissions, our premiums are still high because we're factoring in those other costs. What do you think of that?

John Trowbridge: I don't see why that would be the case. It doesn't add up to me. There are no different costs. If I'm a broker, I go to an underwriter and ask for a quote, and I ask for that to be either with or without commission, then that's what I'll get. And there's no difference in cost to the underwriter because they're getting approached anyway, by the way, by the broker. The underwriters are. Their costs don't change because it's with or without commission. I don't see how that would happen.

Now, I can imagine some underwriters thinking they might be able to exploit this by reducing it by less than 20%. Well, that's where we leave things to the market. And I think I understood. Now, I can't confirm this, but I think CHU has already announced that it will be reducing its premiums by 20%.

Amanda Farmer: Great.

John Trowbridge: And if they do that, they're the largest player in the market. I think it'll be difficult for others not to follow.

Amanda Farmer: So, how do we make sure that this saving flows directly on to owners and we don't see increased broker fees, for example.

John Trowbridge: Let's go back one step. This is not about reducing costs. This is about being fair and open and disclosing properly what the charges are by strata managers and brokers. The market may modify over time because, as I'm sure you've heard, strata managers and others say, "Oh, we're going to now switch to a fee-for-service."

Well, we don't yet know how that might play out, but I think in the beginning and during a transition from where we are to a place where there are no. There's no sharing of fees and commissions, we'll see the charges made being equivalent to what they are now. But. So let's start with the simplest case. The simplest case is where there is no commission. Now there's a broker fee, which is shared between the strata manager and the broker.

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Let's say it's 50. 50. What would happen, what ought to happen in this case is that the broker fee that that broker wants to charge is reduced by 50% and the 50% that the strata manager would have otherwise obtained and would have had to add it on anyway to the bill for insurance, to the body corporate. That 50% now should go into the pocket of the strata manager.

Amanda Farmer: Paid by the owners as a fee for service.

John Trowbridge: It's already paid by the owners.

Amanda Farmer: Yes. But paid through the insurance.

John Trowbridge: They don't see it often because it goes from the owners to the broker, then the broker back to the strata manager.

Amanda Farmer: Yes, got it. So what you're expecting, John, is essentially what owners are paying for their, let's call it insurance, and strata management services combined. That amount should not change. It is just being paid in a different way.

John Trowbridge: Correct.

Amanda Farmer: You're paying an amount for your insurance, which may well be less, and then an amount for your strata management services, which may well be more. And at the end of the day, we come out in the same place.

John Trowbridge: Yes. That's correct.

Amanda Farmer: Yes. I like that way of thinking about it. And how do brokers feel about all of this, the way that you put it? Essentially, from their perspective, nothing should be changing. They're receiving less from the insurer, but they're sharing less with the strata manager. Does that mean they end up in the same position as well? And, is this happy days for them too?

John Trowbridge: Well, in financial terms, yes. What's troubling some of them is that they've built relationships, strata managers and brokers have built relationships, and they rely on each other in those relationships to give services the way they do. Some of those are very good and above board, others are actually a sort of a deal, if you like, that basically locks or tries to lock in the relationship.

So there are brokers and strata managers out there who fear that once you don't have a financial connection between broker and strata manager, which is what this would lead to, that the other parts of the relationship would be compromised in some way. Now, it's very hard to predict exactly how that will happen, and I'm not at all surprised that people fear that. But again, I think that's one of those things the market will work out, and what we will see, whether it's through the SCA requirements or through subsequent legislation, I think we'll see a transition period where everybody adapts to that.

Amanda Farmer: Surely brokers are in the same position as strata managers here. This is about being paid for the work that you do and providing good service. You provide good service as a broker, then you're going to have a strata manager saying to their client, the owners corporation, "Hey, we have seen this broker do good work. We recommend that you owners corporation engage them like any professional service."

John Trowbridge: Correct. That's exactly how it should work. Instead of, as we see many times today, we have engaged this broker, and this is who the broker is and what they will do for you.

Amanda Farmer: Yes, this is who we're using. Yes, exactly. All right. So you flagged there, John, that the New South Wales government has been talking for some time, perhaps a little too long, about reform in this area. You know, banning insurance commissions, broker fees, you know, the strata lawyers.

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Australian College of Strata Lawyers calls for all third-party payments flowing to strata managers to be banned. Whether or not that happens we'll wait to see. But it hasn't happened yet. SCA New South Wales has moved forward with their plans. We may see other SCA organisations across the country follow. What do you think? Do we need this legislation, or now that we're seeing this form of self-regulation happen, do you think that's going to be enough?

John Trowbridge: Well, that's an interesting question. When I was doing my work three years ago on this, I went to both the SCA and NEBA, the Broker's Association, because they knew they were actually helping me with doing the work. And I said, "Well, how do you think this could happen? I have no authority, I'm just a private individual, and you have a level of authority over your members, but also you could have legislation imposed around this."

Both of them said in very strong terms, "We want to do this on a self-regulatory basis." Now, the SCA took a while, it took more than a year after my first two reports before they moved ahead on disclosure. And the government in New South Wales, as you know, has since legislated in relation to the whole commission thing. This is a self-regulatory step which the SCA has decided it wants to take because it sees its.

You'll see that all the publication from Robert Anderson and the other statements by the New South Wales SCA, they believe, and I agree with them, that it's a step towards. And you did too by your reference to the lawyers to a more professional position. Without it. You see many of the things that we've currently got, and we see not only some excessive broker fees and with large payments to either to the broker or the strata manager or both that are outside beyond market norms or market competitive prices.

We also see a range of third-party type arrangements which are aimed at giving the broker and strata manager more income without the owners really understanding it. So those things exist today in the marketplace. I think some people are even trying to figure out can they make new ones if the law makes the existing ones not workable. What you and I, and a lot of others, are looking for is an open, competitive market here where everything's on the table.

And it's not about trying to, as I've said before, about trying to cut prices, it's about trying to have fair pricing that the owners understand that the brokers and the strata managers can work with. Without legislation, you probably won't achieve this. Incidentally, are you aware that the Victorian government's now got a commission or a Tribunal or something that's also looking at this question?

Amanda Farmer: I didn't know they were looking specifically at this. I know that they've got a committee together looking at legislative reform down there more broadly, but good to hear that this is on the table as well.

John Trowbridge: Yes, it is, it is. And they and the other states are looking closely, as well as his ASIC, at what New South Wales is doing.

Amanda Farmer: Yes, look, I agree with you. I think we do need that legislative intervention, and it will be very interesting to see how much it covers. You know, as you said, there are other arrangements out there. There are what we're calling vertically integrated companies, strata management companies with financial interest in brokerages. How far will the legislation stretch to potentially prevent those kinds of relationships? We don't yet know.

So as a lawyer, I'm certainly very interested to see how all that plays out. And by the sounds of it, the rest of the country is watching, as is often the case, strata looking at what New South Wales does as the state with the most strata owners in it. I think we have an interesting few months, perhaps, hopefully it's not years again, John, but a few months ahead of us.

John Trowbridge: Well, there's another initiative going on in parallel, and that is a review by NEBA of its broker code.

Amanda Farmer: Right.

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John Trowbridge: And that will, I haven't seen it yet. I think they've got a consultation document coming out very soon.

Amanda Farmer: Okay.

John Trowbridge: But it will, I think, deal with some of these issues too. Not, it's of course, not restricted to strata, but then that's of course, under federal legislation, it affects brokers. So I think that will be another little piece of the pie that will come to the fore as well.

Amanda Farmer: Well, lots to keep us all interested. Thank you very much, John Trowbridge, for joining me again. I have a feeling we might be having another chat in a little while.

John Trowbridge: Well, it'll be very interesting to see, won't it, just how this plays out. So thank you. Nice to talk to you again, Amanda.

Amanda Farmer: Thanks, John.

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