



12 April 2019

ACCC Northern Australia Insurance Inquiry
GPO Box 520
Melbourne VIC 3001
Via Email: insurance@accc.gov.au

Dear **Sir/Madam**

RE: *ACCC Northern Australia Insurance Inquiry First Interim Report*

I am writing on behalf of Prudential Investment Company of Australia Pty Ltd (PICA Group), Australia's largest strata management company, operating in all states and territories across the country.

Within this correspondence I wish to specifically address the relationship between commissions and the strata manager. We feel strongly that a degree of inaccuracy was included in the *ACCC Northern Australia Insurance Inquiry First Interim Report*. Owners, managers, brokers, and the extended strata community must be given an opportunity to have any legislative changes carefully considered and this cannot be accomplished without full and complete information.

PICA Group wishes to address key fundamental challenges associated with the recommendations, as they relate to changing the potential structure of payments from an equitable commission structure, to an alternate hybrid fee model within the Strata Industry. This includes:

1. Removal of insurance commissions will require a realignment of fee structures for strata management organisations, in order to maintain service performance and advisory services, with regard to risk management strategy, to ensure appropriate insurance coverage of Strata buildings.
2. The potential removal of Strata Authorised Representatives may result in an increase in insurance premiums and fees for the end consumer, as insurance companies are unlikely to achieve any reduction in premiums as they will incur equivalent or higher costs to develop their distribution model.
3. The potential to disadvantage smaller, older and less financially secure buildings and their owners.

From a regulatory perspective, the principle of full transparency and disclosure, rather than prohibition, would be a better and fairer approach as it would enable consumers to make an informed decision as to the value of the service of the strata manager.

Recommendation 11 and *Draft Recommendation 9* of the *Interim Report* suggest the elimination of commissions for strata managers. The recommendations as presented do not elaborate on the extensive services a strata manager provides in return for the commission and it does not clarify who would be supporting bodies corporate in fulfilling their legal obligation to insure their strata community. The task of insuring a building is not a one-off transaction but involves significant education, information and communication between various parties.



A loss of commissions is unlikely to result in any reduction in costs to consumers, as the party responsible to service the body corporate relating to their insurance would be a different one. Due to mandatory insurance requirements, the need for the service is undeniable and will always include administrative expenses that the consumer must carry one way or another. Strata Managers are better placed to understand strata communities and their unique needs, while also maintaining the relationships that enable communication with each individual owner; something strata insurers do not have the capacity or systems to do. PICA Group's Strata Managing Agents receive comprehensive education and training in strata insurance as "Authorised Representatives". Through scale, PICA Group has been able to negotiate enhanced strata insurance products at more competitive premiums for owners' corporations, thus providing significant savings to consumers.

We are members of Strata Community Association (SCA), the peak industry body for strata managers and suppliers. Collectively SCA represents more than 5,000 entities and individuals who care for 2.5 million lots in Australia. Our profession prides itself on upholding standards and servicing lot owners for a reasonable fee and excellent service. PICA Group approaches each state and region separately to ensure appropriate products and services at a competitive price.

Broad brush reform risks unintended and damaging consequences for both consumers and associated businesses. I do believe that there is clear scope to further improve transparency and accountability through the financial services licensing mechanism. Any reform that seeks to remove commissions should only occur in the context of a comprehensive program that provides transitional support to affected businesses. Regulatory and market mechanisms will only build consumer trust and confidence by raising standards, not lowering them.

As a key stakeholder in the strata sector, I support SCA's submission to the *ACCC Northern Australia Insurance Inquiry First Interim Report*. We would welcome the opportunity to further discuss PICA Group's position, I am happy to make myself and my team available at a time convenient to you. Please don't hesitate to contact me to arrange a meeting.

Kind Personal Regards,
Prudential Investment Company of Australia Pty Ltd

A handwritten signature in black ink, appearing to read "G. Nash". The signature is fluid and cursive, with a period at the end.

Greg Nash
Managing Director & Group Chief Executive Officer