

# AT THE CROSSROADS

## *Addressing Pervasive Conflicts of Interest in Strata Management*

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# Presentation Overview

**1 Context** Historical background and why this matters now

**2 Conceptual Framework** Understanding conflicts of interest

**3 Research Methodology** How we investigated the issues

**4 Key Findings** What the evidence reveals

**5 Discussion** Industry practices and severity of risks

**6 Recommendations** Policy and industry implications

# The Industry at a Critical Juncture

## The Transition

The strata management industry is on the precipice of changing from an occupational-based industry to a professional one.

## The Obstacle

Conflicts of interest are critical obstacles that must be overcome. There are commonplace practices at odds with fundamental legal and ethical duties.

## 2024: The Turning Point

Decades of simmering concerns erupted under a barrage of media attention exposing the underbelly of the strata management industry. This together with increased media scrutiny has enlightened strata lot owners, leading to growing distrust of the industry as a whole.

# A Historical Account: Decades of Ignored Warnings



*"Thirty years later... still debating the same issues"*

# Why Strata Management is High-Risk for Conflicts

## **Complex Legal Framework**

Prescriptive legislative provisions require specialist knowledge

## **Volunteer Committees**

Committee members rarely have strata expertise

## **Agency Relationship**

Creates inherent power imbalance and reliance

## **Apathetic Lot Owners**

Limited oversight and engagement

## **Dependency on External Services**

Multiple supplier/provider relationships create opportunities

# Defining Conflicts of Interest

*A conflict of interest is a situation in which an interest tempts one to disregard a work-related duty – a situation that threatens the interest of someone else.*

— Villaran (2021)

**1**

## The Relationship

Based on reliance and trust (manager-client)

**2**

## The Duty

Obligation to act in client's best interests

**3**

## The Interest

Tangible or intangible benefit (broadly interpreted)

**4**

## The Temptation

Only needs to be tempted, not act on it

## Key Point

Being in a conflict of interest situation is not necessarily wrong.

The real problem arises after the duty-bound person is confronted by a conflict-of-interest situation. It is their next steps that determine the level of legal and ethical risk exposure.

# The Legal Framework

## Strata Legislation

- Best interest duties (direct or implied)
- Disclosure requirements
- Supervision guidelines
- Penalties for non-compliance

## Crime Legislation

- Secret commission provisions
- Up to 7 years imprisonment
- Applies to agents receiving benefits
- Also applies to those offering benefits

## Fiduciary Duty

- Highest duty owed in law
- Conflict rule: no duty/interest conflicts
- Profit rule: no profit at client expense
- Trust and loyalty at heart

# The Disclosure Failure

## The Assumption

People are rational and will have the cognitive ability to digest complex information, discount biased advice, and make an informed and optimal decision.

## The Reality

*"Disclosure cannot generally be assumed to be an effective solution for the problems created by conflicts of interest; it may even make matters worse."*

## The Transparency Illusion

Information can be disclosed but: incomprehensible, overwhelming, misleading, inaccessible, or not useful. There can be extensive disclosure without ever achieving transparency.

Three critical problems remain: the underlying duty remains, disclosure is not consent, and cognitive impediments exist for both parties.

# Cognitive Impediments to Effective Disclosure

## Owners Corporation (Duty-Owed)

### Judgmental Correction

Difficulty estimating magnitude of bias

### Evidentiary Discreditation

Trouble unlearning false information

### Lay Dispositionism

Character trust overrides caution

### Insinuation Anxiety

Fear of appearing distrustful

## Strata Manager (Duty-Bound)

### Self-Serving Bias

Unknowingly assimilate favourable evidence

### Blind Spot Bias

See bias in others, not ourselves

### Strategic Exaggeration

Give more biased advice after disclosing

### Moral Licensing

Disclosure bolsters self-image, reduces care

# Research Methodology

*Qualitative, mixed-methods approach with methodological triangulation*

## Phase 1

### Preliminary Interviews

6 strata professionals  
(National)

## Phase 2

### Website & Agreement Review

153 websites  
35 agreements (NSW)

## Phase 3

### In-Depth Interviews

20 senior managers  
20+ hours recorded  
(NSW)

## Phase 4

### Owner Engagement

16 strata lot owners  
2 structured sessions  
(NSW)

Integration enabled cross-validation of findings with consistent themes emerging across different data sources

# Conflict of Interest Areas Identified

**Insurance Commissions**

Widespread

Commission from insurer/broker based on premium

**Developer Consulting**

Widespread

Pre-registration work for free/low fee in exchange for benefits

**Affiliated Entities**

Large firms

Legal/familial relationships with service providers

**Staff Remuneration (Schedule B)**

Widespread

Staff pay tied to additional service charges

**Supplier/Provider Referrals**

Variable

Fees or benefits for referring to suppliers

**Training & Sponsorship**

Variable

Free training in exchange for preferred status

# Industry Operator Categories

The research identified four distinct operator categories based on ethical positioning:

## Traditional Operators

6 of 20

Commission-dependent, 15-25% revenue from insurance. Believe disclosure is sufficient. Resist change.

## Reform-Oriented Operators

6 of 20

Eliminated commissions or never took them. Higher base fees. See ethical stance as competitive advantage.

## Transition/Conflicted Operators

5 of 20

Acknowledge problems, want change but waiting for legislative mandate. Fear competitive disadvantage.

## Whistleblowers/Critics

3 of 20

Detailed problematic practices. Named companies. Described 'tap and go' monetisation mentality.

# Insurance Commissions: Central Finding

**91%**

of agreements disclosed  
insurance commission

**15-25%**

of revenue from  
insurance commissions

**Up to 20%**

of base premium  
(most common)

## Key Issues Identified:

- Cross-subsidisation: larger schemes/higher premiums subsidise smaller schemes
- Broker appointment confusion: delegated authority used without OC resolution
- Affiliated broker relationships create additional layer of conflict
- Owners unaware of how commission money is used or tax implications

# What Managers Said

## Traditional Operator

*"If insurance commissions are prohibited, there will be no profit for the business. Insurance makes up 18% and 1/3 profit."*

## Reform-Oriented Operator

*"They're a clear conflict of interest. They're creating complications. We don't need them... there's simply no basis on which, logically, a strata manager should take a commission."*

## Transition Operator

*"Even our staff don't necessarily really understand how it all is structured... I think majority [of owners] don't really understand it."*

## Whistleblower

*"They are trying to monetise every transaction. Your fiduciary responsibilities are to your principal, to the client, but you're also being told there's incentives here."*

# Developer Consulting: Competing Obligations

47% of websites reviewed promoted developer structuring and consulting services

## The Model

Pre-registration work performed for free or below commercial rates.

Revenue recovered through:

- Initial management appointment
- Section 184 certificates
- Insurance commissions
- Ongoing management fees

## The Harms to Owners Corporations

- Low-balling of levies (artificially low budgets)
- Building defect mismanagement
- Structures enabling ongoing developer control
- Advice advantageous to developer, not OC

*"The relationship is a poisonous chalice... You cannot serve two masters."*

— Multiple interview participants

# Schedule B Billing: Staff Incentivisation

Common practice: staff remunerated via base salary + percentage of Schedule B (additional service) fees

## Evidence from job advertisements (September 2025):

*"Up to \$140k base + super + approx. \$40k in Schedule Bs" • "50% of Schedule Bs and new business comms" • "\$110k + super + meeting fees + bonuses" • "Solid six figure salary package plus Schedule Bs"*

## The Concern

*"At [company named] a massive lump of your salary was the Schedule B fees. The more you charge the client, the more you monopolise their time... the longer the meetings went, the more money you get."*

*"Some of the companies... we had KPIs. We actually had to charge a minimum of \$10,000 for the schedule fees a month to even see a cent."*

# Vertical Integration & Affiliated Entities

46% of agreements disclosed affiliated entity relationships

## Types of Affiliated Services

- Maintenance & plumbing
- Insurance broking
- Remedial/building work
- Legal services
- Valuation services
- Fire protection
- Energy broking
- Tax compliance

## The Core Problem

*"So it's a valid business model saying, we know you're busy... We're professional strata managers. We take care of everything for you, which is a recipe for temptation. It's a recipe for inflated costs without the customer's knowledge."*

## Key Concern: Affiliated Insurance Brokers

Managers claiming they don't accept commissions while having shareholding/directorship in broker entities.

"Forget about transparency and people going around saying, Oh, we don't accept commissions, but we've got a shareholding in the company that creates profit."

# Owner Perspectives: What Owners Said

## Knowledge Gaps Revealed

- Tax implications unknown
- Cross-subsidisation effects unknown
- How commission money is used unknown
- Broker arrangements unclear
- Difficult to evaluate service quality

## Trust Erosion

- Universal preference for fee-for-service
- Frustration at hidden structures
- Multiple owners stated they do not trust their managers
- Distrust more acute for defect-affected schemes

*"I would be much happier paying a fee for a service rather than a bit of a palm greasing here and there."*

*"Of all the industries that I've worked in there isn't an industry as much as a dumpster fire as strata... it's just so convoluted and so much stuff is happening that is not transparent."*

# Severity of Conflict-of-Interest Risks

Assessment criteria: Likelihood of undue influence + Seriousness of possible harm (Lo & Field, 2009)

Practice / Relationship	Influence Risk	Potential Harm	Mitigation Possible?
Insurance Commissions	<b>HIGH</b>	<b>HIGH</b>	Ban required
Developer Consulting	<b>HIGH</b>	<b>HIGHEST</b>	Separation required
Affiliated Entities	<b>HIGH</b>	<b>MEDIUM-HIGH</b>	Independent validation
Staff Schedule B Incentives	<b>MEDIUM-HIGH</b>	<b>MEDIUM</b>	Policy controls
Supplier Referrals/Kickbacks	<b>VARIABLE</b>	<b>MEDIUM</b>	Elimination
Training/Sponsorship	<b>LOW-MEDIUM</b>	<b>LOW</b>	Disclosure + rotation

# Key Conclusions

1

## **Systemic Industry Dysfunction**

Conflicts of interest represent a fundamental structural problem institutionalised over 30+ years

2

## **Failure of Disclosure**

Disclosure-based regulation is a flawed mechanism that has created an illusion of transparency

3

## **Voluntary Reform Will Fail**

Competitive pressures prevent voluntary change; government intervention is essential

4

## **Viable Alternatives Exist**

Reform-oriented operators demonstrate ethical, profitable business models are achievable

# Policy Recommendations

## 1. Prohibit Insurance Commissions

Outright ban (not disclosure). Ban must extend to insurance brokers. Cross-subsidisation creates inherent conflicts that cannot be mitigated.

## 2. Separate Developer Consulting & Management

Companies providing pre-registration consulting prohibited from initial management appointments. Only ethical pathway to eliminate competing loyalties.

## 3. Restrict Affiliated Entity Dealings

Require independent third-party validation, prohibit use of delegated authority for affiliated engagements, mandate competitive tendering with independent oversight.

## 4. Reform Delegation Powers

Limit scope of delegated authorities for financial decisions. Require explicit OC approval for insurance broker appointments and supplier engagements.

# Industry Implications

## Pricing Model Changes

- Shift to fee-for-service
- Increase management fees
- Itemised monthly invoices
- Transparent pricing

## Professional Development

- Invest in ethical training
- Develop industry guidelines
- Review SCA code of ethics
- Focus on duty awareness

## Enhanced Accountability

- Auditor rotations
- Direct reporting to OC
- Independent practice reviews
- Clear complaints processes

**Suppliers and service providers must develop arm's length relationships to enable industry transformation**

# Critical Success Factors for Reform

1

## Legislative Mandate

Voluntary reform will not succeed due to competitive pressures. Government intervention is essential to create level playing field.

2

## Transition Support

Both managers and owners need support: clear implementation timelines, industry guidance, and consumer education programs.

3

## Enforcement Mechanisms

New regulations must include meaningful penalties, regular auditing and monitoring, and clear complaint resolution processes.

4

## Industry Leadership

Reform-oriented operators should be recognised and supported. Industry bodies must provide meaningful engagement and support during transition.

# The Path Forward

*"The strata management industry has reached a critical juncture where institutionalised conflicts of interest have eroded trust to such a degree that only comprehensive legislative reform can restore the integrity of the principal-agent relationship that should be at the heart of strata management."*

Reform will be disruptive but is both necessary and achievable.

Early adopters have already demonstrated viable alternative models.

# Thank You

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Full report available: At the Crossroads: Addressing Pervasive  
Conflicts of Interest in Strata Management (October 2025)