

NATIONAL

Remuneration of Strata Insurance Intermediaries

With John Trowbridge
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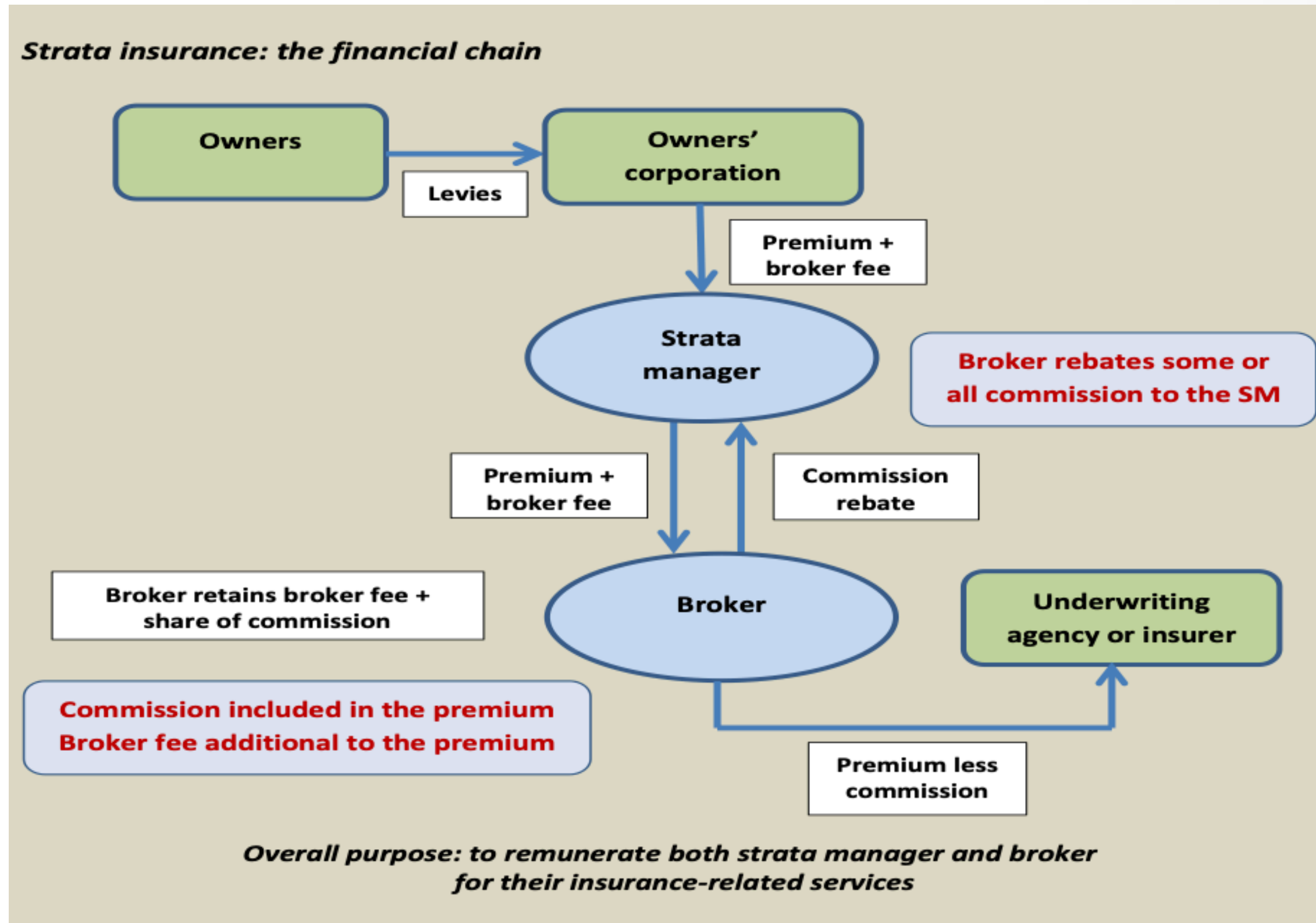
20 June 2024



WWW.LOOKUPSTRATA.COM.AU



Strata Insurance: The financial chain



Insurance invoice templates – what do you see?

Section 1 – insurance costs

Invoice template section 1 - JT Version

Undewriting agency Insurer	This year
	[Name] [Name]
SECTION 1 - ITEMISED INSURANCE COSTS	
<i>Insurance charges</i>	
Base premium gross (includes commission)	10,000
ESL or FSL*	1,300
GST	1,130
Stamp duty	1,200
Underwriting agency fee	200
Underwriting agency fee - GST	20
Total insurance premium	13,850
Broker fee	1,000
Broker fee - GST	100
Total insurance costs - amount payable	14,950

SCA
Item No

Invoice template section 1 - SCA Version

Undewriting agency Insurer	This year
	[Name] [Name]
SECTION 1 - ITEMISED INSURANCE COSTS	
<i>Insurance charges</i>	
Base premium gross (includes commission)	10,000
ESL or FSL*	1,300
GST	
Stamp duty	1,200
Underwriting agency fee	200
Underwriting agency fee - GST	20
Total insurance premium	
Broker fee	1,000
GST all items	1,230
Total insurance costs - amount payable	14,950

Insurance invoice templates – what do you see?

Section 2 – intermediary remuneration

Invoice template section 2 - JT Version

SECTION 2 - REARRANGEMENT OF SECTION 1:	
ITEMISED INTERMEDIARY REMUNERATION	
<i>Initial remuneration before GST</i>	
Commission - within the base premium	2,000
Broker fee - additional to the premium	1,000
Total intermediary remuneration	3,000
<i>Allocation of remuneration</i>	
Strata manager: share of remuneration	1,750
Broker: share of remuneration	1,250
Total intermediary remuneration	3,000
Base premium net of commission	8,000
All other charges before GST	2,700
Total insurance costs before GST	13,700
GST	1,250
Total insurance costs including GST	14,950

Invoice template section 2 - SCA Version

SECTION 2 - REARRANGEMENT OF SECTION 1:	
ITEMISED INTERMEDIARY REMUNERATION	
<i>Initial remuneration before GST</i>	
Commission - within the base premium	2,000
Broker fee - additional to the premium	
Total intermediary remuneration	
<i>Allocation of remuneration</i>	
Strata manager: share of remuneration	1,750
Broker: share of remuneration	1,250
Total intermediary remuneration	3,000
Base premium net of commission	
All other charges before GST	
Total insurance costs before GST	
GST	
Total insurance costs including GST	-

Conflicts of interest and the commission rebate/broker fee system

- There are two unmanageable conflicts of interest within the mainstream SM and broker remuneration arrangements -
 - Commission rebates from brokers to SMs
 - Broker fees that are additional to commissions
- How do they work?
 - The SM agrees with the broker on a share of commission to be rebated to the SM
 - The broker agrees with the SM on a broker fee that is additional to the commission.

Together they comprise the *commission rebate/broker fee system*
- the broker agrees with the SM on a broker fee that is additional to the commission.
Together they comprise the *commission rebate/broker fee system*.

It's time to phase out the commission rebate/broker fee system

- The *commission rebate/broker fee system* should be phased out to eliminate the primary conflicts of interest
 - Stage 1: introducing transparent disclosure (under way)
 - Stage 2: consolidating disclosure and preparing to phase out the system (2023 to 2024)
 - Stage 3: phasing out the system via structural realignment – the transition (from 2024)

STRATA INSURANCE DISCLOSURE HANDBOOK – pp 11 & 12

Ask your SM: Strata insurance business arrangements

Strata insurance business arrangements

Record of strata insurance arrangements (to be prepared by Strata manager)

[Purpose: to offer transparent disclosure to enable interested OCs or lot owners to understand potential synergies in the business models and operations of their intermediaries and also potential conflicts of interest]

1. Reference details

Body corporate identifier:

Address of strata property:

.....

Name of strata manager – individual:

– firm:

Name of broker – individual:

– firm:

2. Business model characteristics – see schedule next page

Features of the arrangements not evident from the items in the schedule:

.....

.....

3. Why this business model?

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4. What are the benefits of this model to the owners' corporation?

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.....

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Prepared by:

Strata Manager

Date:

Schedule of business model characteristics: strata manager to tick one box in each segment

... some segments have some overlap with others

A. Type of business model	
• SM has appointed preferred broker but no tied or financial connection to broker	<input type="checkbox"/>
• SM operates with preferred broker(s), SM and broker have a direct shared interest in the combined commission and fee revenue	<input type="checkbox"/>
• SM has its own licensed broking firm	<input type="checkbox"/>
• SM is owned by the broking firm it appoints	<input type="checkbox"/>
• SM and broker have cross ownership	<input type="checkbox"/>
• SM and broker have a JV using a CAR and share the CAR's income	<input type="checkbox"/>
• SM receives full commission (no broker)	<input type="checkbox"/>
• Broker receives and retains full commission (no SM)	<input type="checkbox"/>
B. Third party entity between broker and strata manager	
• None	<input type="checkbox"/>
• Corporate Authorised Representative (CAR)* or other third party entity	<input type="checkbox"/>
C. Remuneration structure	
• SM and broker share commission and fees between them	<input type="checkbox"/>
• SM and broker share fees between them, no commission	<input type="checkbox"/>
• SM and broker share commission between them, no fees	<input type="checkbox"/>
D. Premium: gross or net?	
• Gross: Commission in premium	<input type="checkbox"/>
• Net: Premium contains no commission	<input type="checkbox"/>
E. Remuneration approach	
• Fees only, net premium	<input type="checkbox"/>
• Commission rebate and broker fee, gross premium	<input type="checkbox"/>
• Composite commission & broker fee, gross premium	<input type="checkbox"/>
• Commission only, some rebated to SM (no broker fee)	<input type="checkbox"/>
F. Broker category	
• Specialist strata insurance broking firm, other business ancillary only	<input type="checkbox"/>
• Specialist strata insurance division within a wider insurance portfolio	<input type="checkbox"/>
• General broker with strata insurance as incidental part of a wider portfolio	<input type="checkbox"/>
• No broker appointed	<input type="checkbox"/>
G. Strata manager category	
• Authorised Representative (AR)# as an agent of the broker (can arrange insurance)	<input type="checkbox"/>
• Distributor# as an agent of the broker or the CAR (limited insurance role)	<input type="checkbox"/>
• Referrer for the broker or CAR	<input type="checkbox"/>
• No strata manager appointed	<input type="checkbox"/>

* If a CAR or other third party entity exists	<input type="checkbox"/>	Income payable to SM and broker –	
• SM ownership 100%	<input type="checkbox"/>	• Policy by policy	<input type="checkbox"/>
• Broker ownership 100%	<input type="checkbox"/>	• Periodic profit share, dividends or similar	<input type="checkbox"/>
• Shared ownership SM and broker	<input type="checkbox"/>		

AR and Distributor are both individuals authorised by the broker and subject to the broker's AFS licence. An AR can arrange insurances, a Distributor is limited largely to collecting premiums and notifying claims. Distributor

Insurance invoice template – ask your SM

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