STRATA & INSURANCE COMMISSIONS – POLICY IMPACT ANALYSIS

STRATA COMMUNITY ASSOCIATION (NSW)

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Client:	Strata Community Association (NSW)
Client Contact:	Shaun Brockman
Project Manager:	Luka Raznatovic
Email:	luka.raznatovic@aecgroupltd.com
Telephone:	1300 799 343
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KEY FINDINGS & STRATEGIC TAKEAWAYS

Prohibiting SMA commissions would represent a profound shift in the NSW strata insurance market. It has the potential to simplify pricing and address conflicts of interest, but would also raise short-term costs for OCs, threaten the viability of smaller SMAs, and create regulatory inconsistencies with federally regulated brokers.

A phased implementation, coupled with owner education, stronger data collection, and close stakeholder engagement, is essential to avoid unintended consequences and ensure long-term policy effectiveness, should any such prohibition on commissions to SMAs be implemented.

The strata sector in New South Wales continues to grow in scale and complexity, with insurance costs and the remuneration structure under increasing scrutiny. The NSW Government has already introduced reforms to improve transparency across the sector, and is now considering further measures that could prohibit strata managing agents (SMAs) from receiving insurance commissions.

While no formal policy has been announced, this report examines a possible scenario in which commission payments to strata managing agents (SMAs) are prohibited, and considers the potential impacts on stakeholders and the broader sector.

STAKEHOLDER INSIGHTS

AEC's market research with key stakeholders reveals a clear divide between SMAs and owners corporations (OCs) in both awareness and expectations of recent reforms and the potential prohibition:

- **Awareness Gap:** SMAs demonstrated high awareness of recent reforms (62–83%), while awareness among OCs was significantly lower (12–26%) – presenting risks around the misunderstanding of future changes.
- **Perceptions of Current Reforms:** Most stakeholders viewed the reforms positively, welcoming improved transparency and accountability. However, SMAs anticipated higher costs and red tape with increased regulatory burden and operational costs and OC's tended to underestimate the compliance demands.
- **Diverging Views on Commission Prohibition:**
  - 96% of SMAs expect to see higher fees to replace lost commission income, business disruption with 82% seeing viability risks for smaller firms, which would likely result in consolidation within the industry reducing consumer choice. 58% believe premiums would remain unchanged if brokers continued to receive commissions.
  - OCs, by contrast, were strongly opposed to commissions (65%), with most expecting clearer pricing and some anticipating lower premiums, though cost savings remain uncertain. When asked about preferred fee models, OCs expressed a strong preference for choice, with only 6% identifying a commission structure as their preferred.

POTENTIAL IMPACTS

Prohibiting commissions would fundamentally reshape strata insurance remuneration. While it could reduce conflicted incentives and simplify and clarify pricing, it is unlikely to automatically reduce overall insurance costs. Instead, SMAs will likely replace lost commission revenue with higher management fees. The transition would impose significant compliance and adjustment costs, particularly for smaller or regional firms, and could accelerate industry consolidation. While clearer pricing could empower OCs to compare providers and negotiate more effectively, it also risks encouraging low-cost, lower-quality service outcomes across the sector. Overall, the net impact on affordability remains uncertain, while risks to service quality, business continuity, and regulatory consistency are likely considerable.

POLICY CONSIDERATIONS

To minimise disruption and unintended consequences, the following should be prioritised:

- Adopt a phased implementation over at least two years.
- Allow time for current reforms to mature and settle before introducing further changes.
- Commission a comprehensive market impact study, including broker remuneration.
- Invest in OC education to best interpret insurance pricing and service models.
- Expand industry data collection to benchmark SMA fees and broker commissions.
- Maintain ongoing stakeholder engagement to manage expectations and risks.

EXECUTIVE SUMMARY

BACKGROUND

Strata property ownership continues to expand across New South Wales (NSW), underpinning an increasingly vital share of the state's housing supply and economy. As urban density rises and strata-titled living becomes more common, the regulatory framework governing strata management, and particularly strata insurance, faces growing scrutiny.

One of the more contentious areas of the sector relates to the remuneration structures underpinning insurance procurement and claims management. In NSW, Strata Managing Agents (SMAs) often receive commissions from brokers, insurers, or underwriting agencies for placing insurance policies on behalf of Owners Corporations (OCs). While this practice has been long established, concerns about transparency, value-for-money, and conflicts of interest have intensified amid rising premiums and cost-of-living pressures.

The NSW Government is undertaking a multi-stage reform of the strata sector to improve transparency and strengthen financial resilience. As part of the February 2025 reforms (hereafter referred to as the 'second tranche of reforms') the Government has already introduced measures mandating the disclosure of commission arrangements and requiring clearer breakdowns of insurance costs.

Looking forward, further changes to the remuneration structure are under consideration, though the final form of this reform remains uncertain at the time of writing. One prominent proposal examined in this analysis involves a potential prohibition on SMAs receiving insurance commissions. Under this scenario, it is assumed that insurance brokers, who are regulated under federal legislation, would remain exempt from the proposed changes. This prohibition seeks to reduce conflicted incentives, enhance affordability, and promote market competition. If adopted, it would mark a significant shift in the financial and operational structure of the strata insurance market.

PURPOSE

This report, commissioned by Strata Community Association (SCA) (NSW) and prepared by AEC Group Pty Ltd (AEC), investigates the potential consequences of a legislative scenario where SMAs are prohibited from earning commission-based remuneration for insurance placement. The aim of this report is to assess:

- Whether this change meaningfully addresses concerns over conflicted incentives and escalating fees
- How the possible prohibition compares with the outcomes anticipated from the second tranche of reforms
- The operational, financial, and behavioural impacts on SMAs, brokers, insurers, government agencies, and OCs
- The likely short- and long-term outcomes for service delivery, pricing, and risk coverage

The analysis draws on a detailed literature review and is anchored by findings from a targeted market research study conducted by AEC in April–May 2025. Given the limited availability of publicly sourced information/ data, the survey plays a critical empirical role in informing this evidence-based policy assessment.

KEY FINDINGS

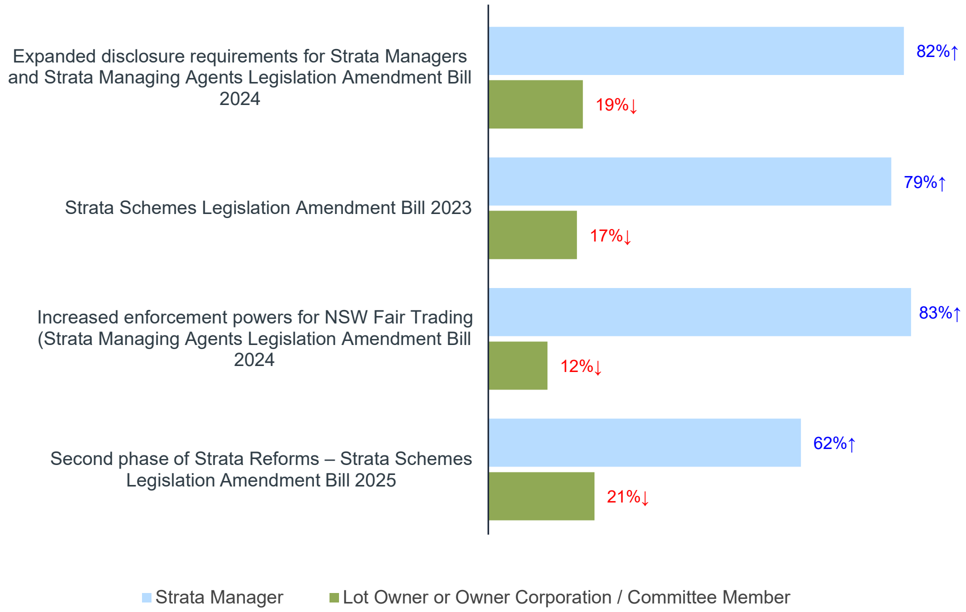
MARKET RESEARCH FINDINGS

The targeted market research study commissioned by SCA and conducted by AEC captured stakeholder insights on both the recent legislative amendments to the Strata Schemes Management Act 2015 and the potential prohibition on strata insurance commissions paid to SMAs. The study focused on key stakeholder groups, SMAs and OCs – who are highly engaged and possess a solid understanding of the industry. The findings reveal significant divergence between SMAs and OCs, both in awareness and expected impacts.

Recent Legislative Reforms (Since December 2023)

- **Awareness Gap:** SMAs reported high levels of awareness across individual reform packages, ranging from 62% to 83%, whereas OC awareness was significantly lower, at just 12% to 26%.

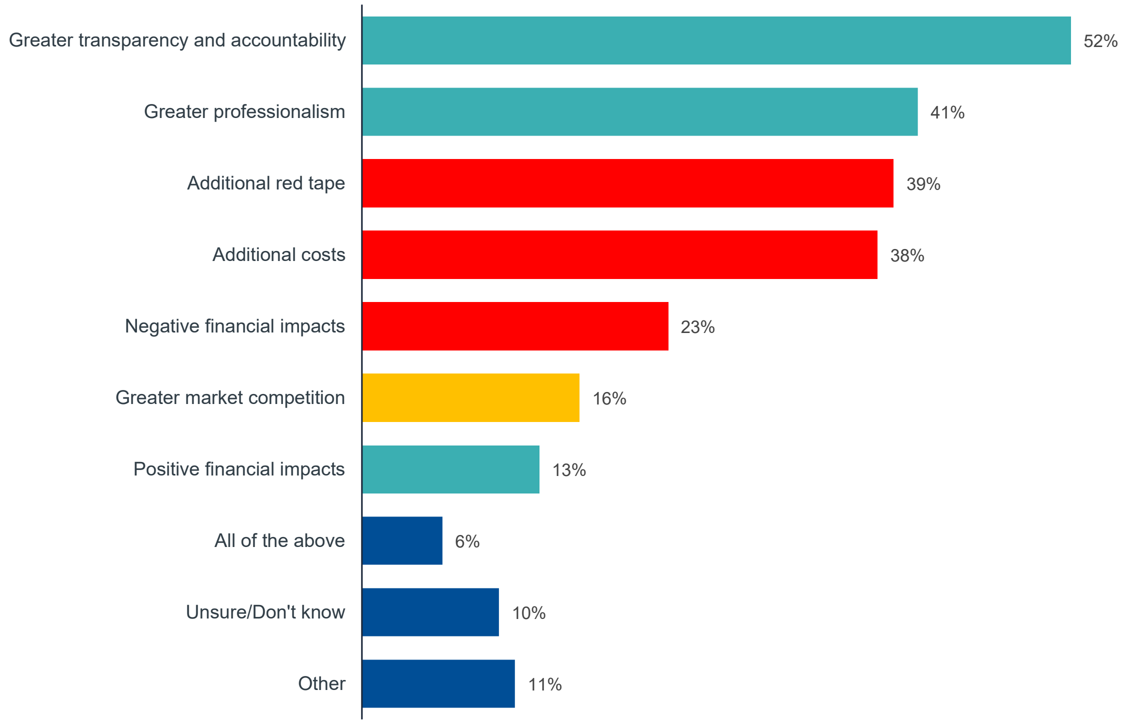
Figure ES.1: Familiarity of Strata Schemes Legislation Amendments, SMAs vs OCs



Source: AEC (2025).

- **Expected Benefits:** Across all respondents, the reforms were seen to deliver positive governance outcomes:
  - 52% cited greater transparency and accountability
  - 41% noted improved professionalism across the sector

Figure ES.2: Types of Expected Impacts of Legislative Amendments



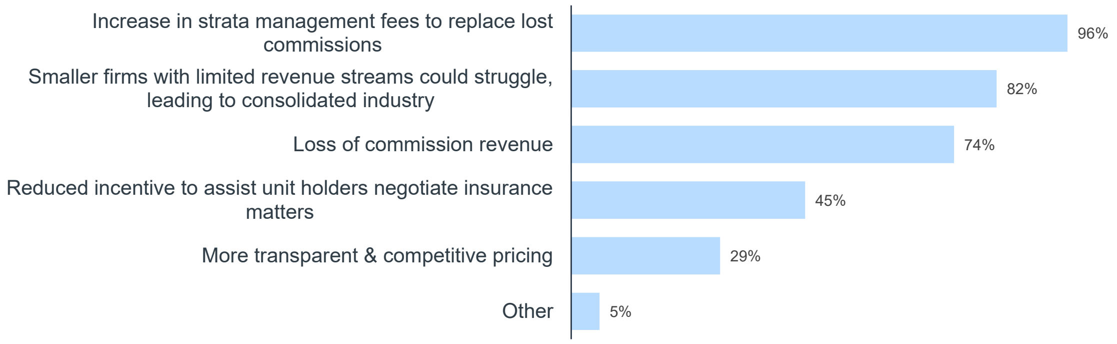
Source: AEC (2025).

- **Expected Burden:** The better informed SMAs were far more likely to anticipate operational strain:
  - **59% of SMAs expected additional red tape**
  - **53% of SMAs anticipated higher operational costs**
  - By contrast, **only 20% of OCs expected greater compliance burden, and just 7% foresaw negative financial impact** – suggesting many OCs may not fully grasp the administrative scope of the reforms.

Possible Prohibition on Insurance Commissions

- SMAs:
  - **96% of SMAs expect a possible prohibition will require an increase in strata management fees to offset lost commission income.**
  - **82% anticipate business viability risks for smaller firms, with the potential for industry consolidation favouring larger players.**
  - 58% believe insurance premiums will remain unchanged under a possible prohibition, but brokers will retain the full commission – raising concerns that cost savings may not materialise for OCs.
  - **A strong majority support a single fixed annual fee covering all management services, as the simplest alternative to the commission model.**
  - 71% of SMAs state they would require more than one year to fully transition away from the current commission-based model, underscoring the need for a phased implementation approach.

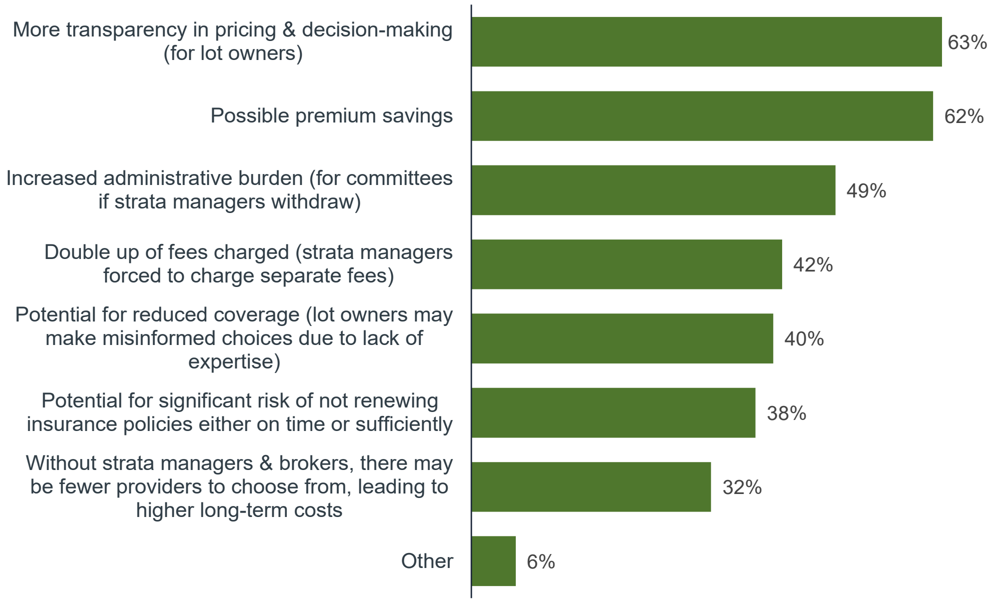
Figure ES.3: Impacts Highlighted by SMAs



Source: AEC (2025).

- OCs:
  - Despite recent disclosure reforms, 65% of OCs still oppose SMAs receiving insurance commissions
  - 63% believe a prohibition will result in greater pricing clarity
  - 62% are hopeful that insurance premiums may decrease, though the extent of actual savings remains uncertain

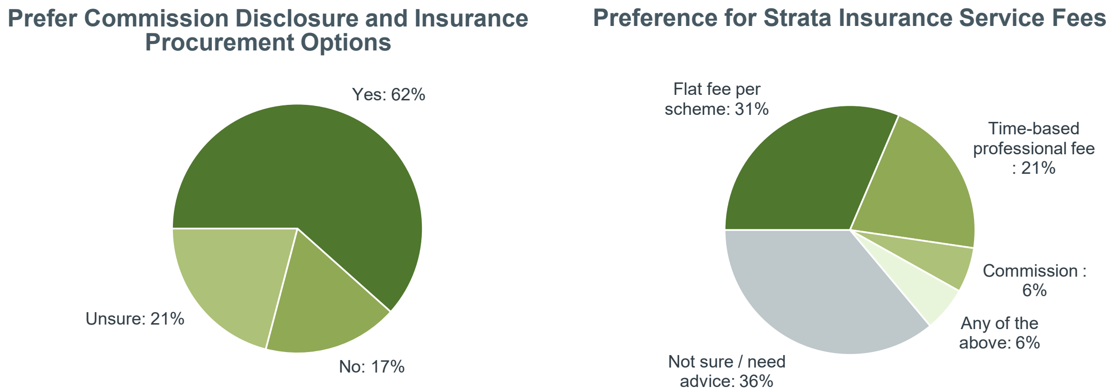
Figure ES.4: Impacts Highlighted by OCs



Source: AEC (2025).

- Fee Model Preferences:
  - 62% support having choice between commission, fee-for-service, or self-management models – indicating a desire for flexibility
  - 31% favour a flat fee per scheme, reflecting support for predictable pricing. Only 21% prefer time-based billing, and just 6% support commission-based arrangements – highlighting a notable shift away from established remuneration models. Although it is acknowledged that these preferences may vary across different regions and sectors throughout Australia

Figure ES.5: OCs Preference For Strata Insurance Service Fees



Source: AEC (2025).

POTENTIAL IMPACTS OF A POSSIBLE COMMISSION PROHIBITION

The possible prohibition of commission-based remuneration for SMAs represents a major structural shift within the remuneration structure of the sector, with wide-ranging financial, operational, and market consequences. While potential reforms may lead to reduced conflicts and simpler fee structures, its implementation is expected to generate several notable impacts – both beneficial and disruptive.

- **Reduction in Total Insurance Costs Is Not Guaranteed:** Removing commissions may reduce conflicted incentives, leading SMAs to prioritise coverage quality and long-term value. Clearer fee structures could also empower OCs to benchmark offers and negotiate more effectively. However, total insurance costs are not expected to decrease automatically. Most SMAs are likely to replace lost commission revenue with explicit service fees, increasing the direct financial burden on OCs. If brokers, who are exempt from the prohibition, retain full commissions, as anticipated by 58% of responding SMAs, overall costs may remain unchanged or even rise. In the longer term, market discipline and broader adoption of net premium quoting may drive improved pricing and competitiveness.

- **Other Strata Fees Are Expected to Increase:** As SMAs restructure their revenue models to maintain commercial viability, strata management fees will rise – either as adjusted base fees or separate charges for insurance-related services. While this may improve pricing clarity, affordability is likely to be compromised in the short term. The pressure to recover lost revenue may be most acute in small and regional firms, where commission income heavily subsidises operational income.
- **Increased Compliance & Adjustment Costs:** Transitioning to a new remuneration model will require SMAs to invest in updated billing systems, staff training, contract renegotiation, and client education. These transitional costs will likely be passed on to OCs through higher strata fees. Without a transitional period, these impacts could be significantly more disruptive, particularly given the recent wave of regulatory reforms and for smaller and/ or regional businesses, may present a real business operating risk.
- **Improved Market Transparency & Competition – But with Risks:** Simplified pricing may empower OCs to compare providers and negotiate more effectively. However, some may choose low-cost providers at the expense of service quality, leading to a decline in the quality of SMAs in the market. Brokers being excluded from the reforms introduces regulatory inconsistency, and larger SMA firms may be better equipped to absorb transition costs, potentially driving market consolidation and reducing consumer choice.
- **Higher Risk of Underinsurance:** As strata costs rise, both from SMA restructuring and potential insurance premium adjustments, some OCs may respond by selecting lower-cost insurance products that sacrifice appropriate coverage. This could worsen an already prevalent issue in the strata sector and expose schemes to greater financial risk.

KEY CONSIDERATIONS IF SCENARIO PROCEEDS

If potential reforms around remuneration structures proceed, the following measures should be prioritised to minimise disruption:

- Adopt a phased implementation – ideally over two or more years, to ease transition and reduce service disruption
- Allow time for the second tranche of reforms to mature and take affect before layering new changes; and assess their effectiveness before further amendments are pursued
- Commission a full market impact study of the proposed amendments, including federal-regulated brokers, to capture system-wide dynamics
- Invest in OC education, ensuring consumers can interpret insurance pricing and compare service models
- Expand industry data collection, enabling public benchmarking of SMA fees and broker commissions
- Engage stakeholders continuously, providing clear timelines, guidance, and feedback loops.

CONCLUSION

If potential reforms around remuneration structures are implemented across the strata sector, it will constitute a significant departure from longstanding industry practices and reshape NSW's strata insurance framework. The potential reform could simplify fee structures, reduce conflicted incentives, and foster improved pricing outcomes via greater market competition – benefiting OCs in the longer term, though this is not guaranteed.

The transition carries considerable short-term risks. Many SMAs, particularly smaller and regional operators, will face substantial financial disruption and risk of business failure, while OCs may experience higher upfront costs and potential reductions in service quality or appropriate insurance coverage. The exclusion of brokers – who will retain their commission-based remuneration structure as they are guided by federal regulation that is not proposing amendments – introduces regulatory asymmetries that may dampen reform effectiveness.

To better mitigate the risks and unintended consequences, **a phased approach to any amendment is essential**. A minimum two-year transition period, as strongly supported in the industry survey, would allow SMAs to adjust business models, restructure fees, and engage in clear communication. Complementary measures such as targeted consumer education, improved data transparency, and sustained stakeholder engagement will be crucial to ensure the policy achieves its goals without inadvertently undermining affordability, competition, business sustainability or service standards.

DICTIONARY OF KEY TERMS

Given the complexity of the strata insurance market, this section defines key terms used throughout the report. Clear definitions are essential, as ambiguity in terminology has contributed to confusion within the industry and influenced recent legislative changes. The dictionary of key terms ensures consistency and clarity for all stakeholders engaging with the report. Key terms include:

- **Broker:** A strata insurance intermediary and professional adviser specialising in insurance, risk management, and claims. Brokers facilitate the placement of insurance policies between owners corporations and insurers, acting as advocates for policyholders throughout the lifecycle of an insurance policy.
- **Broker Fee**: An additional charge imposed by a broker, added to the invoice received from the underwriter and reflected in the broker's invoice to the customer. All premium-related definitions exclude broker fees.
- **Community Lots:** A classification of lots within a community title scheme, which may include shared facilities, parks, or amenities. These lots are governed separately from strata schemes but are often included in strata statistics.
- **Insurer:** An insurance company that provides strata insurance products either directly or through intermediary underwriting agencies.
- **Levy:** A fee or contribution paid by a lot owner to cover projected costs and expenses. They are calculated proportionally to each owner's units of entitlement.
- **Lot:** A portion of a property that can be separately owned and sold. In a strata scheme, a lot typically refers to an apartment or townhouse.
- **Owners Corporation (OC):** The legal entity consisting of all owners of the lots within a strata scheme. Importantly for this report, the OC is the end user/ purchaser of strata insurance products.
- **Premium**: The total cost of an insurance policy, including the base premium, taxes, commissions, and applicable fees.
  - **Net Base Premium**: The initial cost of an insurance policy before adding taxes, commissions, or other charges.
  - **Gross Base Premium**: The net base premium plus commission, but before adding taxes and other charges.
- **Reinsurer:** An insurer taking on all or part of the risk covered under a policy issued by another insurer.
- **Residential Strata Insurance:** A specialised form of property insurance designed to cover buildings within a strata scheme, including common property and shared infrastructure,
- **Strata Committee:** A group of owners elected at the Annual General Meeting to represent all lot owners and administer the affairs of the owners corporation in accordance with applicable regulations.
- **Strata Insurance Commission**: A portion of the insurance premium paid to an intermediary (broker or SMA) for arranging and servicing the policy.
- **Strata Insurance Intermediary**: A collective term for brokers and SMAs, both of whom assist in arranging and managing strata insurance policies.
- **Strata Managing Agent (SMA):** A licensed professional appointed by the owners corporation to oversee the management and administration of a strata scheme.
- **Strata Scheme**: A system of multi-owner property ownership where each owner holds a 'lot' while also sharing ownership of common property.
- **Underwriting Agency:** A specialist strata insurance intermediary that has been granted underwriting and claims authority by an insurer and acts as agent on behalf of the insurer.
- **Valuer:** A professional responsible for assessing strata scheme assets and determining their replacement or reinstatement value to ensure adequate insurance coverage.

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1. INTRODUCTION

1.1 INTRODUCTION

Strata-titled properties play an increasingly significant role in the New South Wales housing mix. With over one million registered lots and an insured asset value exceeding $486 billion, the sector underpins a substantial portion of the state's residential infrastructure (UNSW, 2025). According to NSW Government projections, more than half of Greater Sydney's population is expected to reside in a strata-titled property by 2040, underscoring the critical importance of effective strata scheme management (NSW Government, 2025).

Strata Managing Agents (SMAs) serve as central figures in overseeing the administration, compliance, and financial operations of strata schemes – including the procurement of strata insurance. However, the strata insurance market in NSW remains complex and heavily intermediated, with a remuneration structure that has been criticised by some for its lack of transparency.

In response to these concerns, the SCA introduced the Strata Insurance Disclosure Best Practice Guide, which became mandatory for members as of July 2024, outlining expectations for the disclosure of strata insurance practices. However, disclosure standards in practice have varied. Some SMAs do not adhere to best-practice principles, and implementation across the sector remains inconsistent. In most cases, SMAs receive commissions from brokers, insurers, or underwriting agencies for placing insurance policies, a practice that has triggered concerns around conflicted incentives, opaque and differing fee structures, and potential for inflated overall costs.

Amid rising insurance premiums and broader cost-of-living pressures, some strata property owners have called for greater clarity and accountability. In response, the NSW Government has introduced a series of legislative reforms, including the second tranche of reforms, which mandate detailed disclosure of insurance commissions and fee structures (NSW Legislation, 2025c). As part of ongoing reform deliberations, the Government is considering a more substantial intervention to the remuneration model of the SMA component of the strata supply chain, whilst this change is not yet defined, it is assumed for this report that SMAs are prohibited from receiving insurance-related commissions altogether. The objective of the proposed reforms is to reduce conflicts of interest, improve affordability, and promote more competitive market dynamics, though such a change would also present material disruption across the sector.

1.2 PURPOSE

AEC Group Pty Ltd (AEC) has been commissioned by Strata Community Association (NSW) (SCA) to assess the impacts associated with the potential legislative change regarding commission-based remuneration in strata insurance procurement. The focus of this report is a policy scenario in which SMAs are prohibited from receiving strata insurance commissions within the NSW residential strata market – a reform that would mark a significant departure from current industry practices.

Beyond evaluating the direct effects of a possible prohibition, this report contextualises the change within the broader framework of recent regulatory developments, including the second tranche of reforms that came into effect on 3 February 2025. Differentiating the broader regulatory landscape from the specific consequences of this potential prohibition is essential in understanding its unique impact.

The analysis draws on findings from a targeted market research study *Insights into Impacts of Amendments to the NSW Strata Schemes Management Act 2015 – Strata Manager & Key Stakeholder Engagement Survey* (AEC, 2025), which captured stakeholder perceptions, awareness levels, and expectations regarding both implemented and proposed reforms. This includes insights into consumer attitudes, operational readiness, and potential behavioural responses to remuneration restructuring.

Importantly, this study examines whether the possible prohibition adequately addresses key industry concerns and assesses its implications for all relevant stakeholders, including SMAs, brokers, insurers, and OCs, while supporting SCA's understanding of both intended and unintended consequences for its members and the broader strata community.

1.3 APPROACH

Given the limited availability of publicly accessible industry data, AEC conducted a mixed-methods approach consisting of a comprehensive literature review and a targeted market research study. The structure of this report is as follows:

- **Section 2: Situation Analysis** – Provides an overview of the strata sector in NSW, highlighting growth in strata properties, the complexity of the insurance supply chain and remuneration models, and the recent and proposed legislative reforms that set the context for regulatory intervention.
- **Section 3: Market Research Findings** – Presents the key results from the commissioned market research study, including stakeholder awareness, perceptions, and expectations regarding recent reforms and the possible prohibition on SMA commissions. The section also explores alternative remuneration models, pricing preferences, and operational considerations.
- **Section 4: Policy Change Impact Analysis** – Builds on prior sections to assess and articulate the likely impacts and implications of prohibiting insurance commissions for SMAs, compared to the current regulatory baseline. The analysis considers effects on industry structure, service delivery, stakeholder behaviour, and market competitiveness.
- **Appendix A: NSW Residential Strata Market Overview** – Examines, at a more detailed level, the strata sector's evolution, asset base, and housing role.

1.4 INDUSTRY SURVEY DEMOGRAPHICS

Before proceeding to subsequent chapters, this section outlines the demographic profile of the industry engagement survey commissioned by SCA (NSW) and undertaken by AEC. This targeted stakeholder survey serves as a primary source of information throughout the report, supplemented by a broader literature review, given the limited availability of publicly accessible data on strata insurance markets.

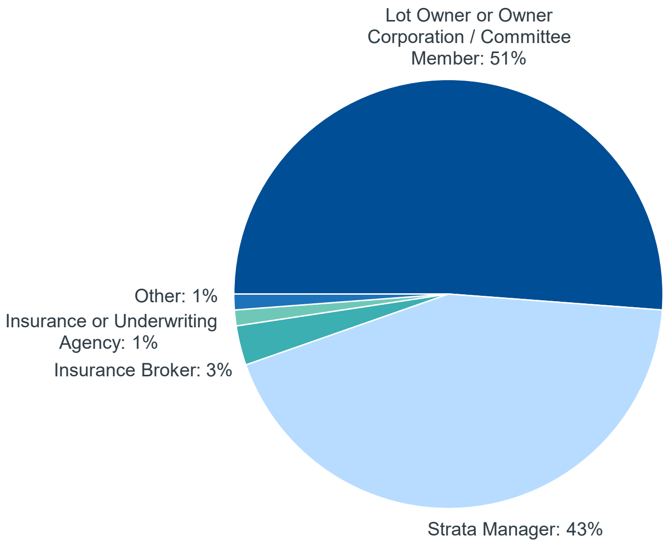
The purpose of the market research was to gather both quantitative and qualitative insights from key stakeholder groups regarding current industry conditions, recently implemented legislative changes and the proposed new reforms – particularly as they relate to strata insurance remuneration structures in NSW.

The online survey was conducted between 17 April and 9 May 2025, targeting a population of 1,785 stakeholders across NSW, including strata managers, OCs, brokers, and insurers. A total of 168 valid responses were received, delivering a ±7.2% margin of error at a 95% confidence level. Respondent composition was as follows:

- 73 strata firm business owners/managers (from a population of 185 strata licence-holders; ±8.9% margin of error):
  - 76% operate in Greater Sydney
  - 39% provide services to regional areas
- 86 lot owners or owners corporation representatives (from a population of approximately 1,600; ±10.3% margin of error)
- 5 insurance brokers (3% of total)
- 2 respondents from insurers or underwriting agencies (1% of total).

Due to smaller subgroup sample sizes, particularly among brokers and insurers, any segmented results should be interpreted with caution when assessing sub-cohort industry views.

Figure 1.1: Survey Respondent Type



Source: AEC (2025).

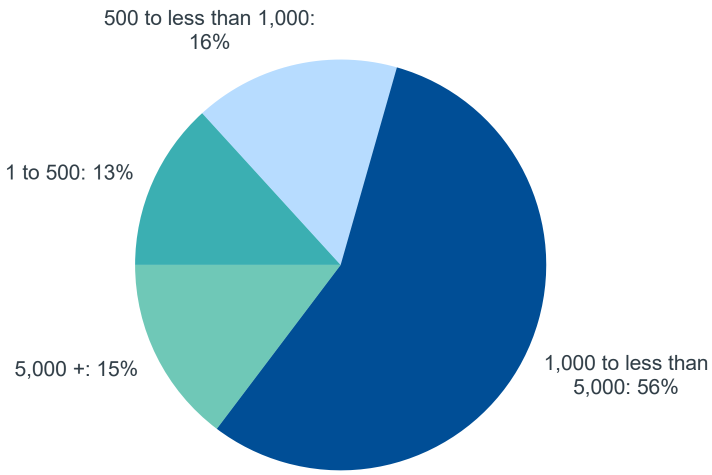
While the survey reached 73 of 185 active strata firm licensees, equating to roughly 39.5% of the known strata firm population, the average number of lots managed per firm was 8,005, representing a combined coverage of 584,365 lots across the sample. Given estimates that the total number of strata lots in NSW is approximately 1,073,277, the respondent sample accounts for at least 54.4% of the total market. As this figure includes self-managed schemes, overall market coverage is likely to exceed 60%. In addition:

- 56% of strata managers reported managing between 1,000 and less than 5,000 lots

- The largest reported portfolio among respondents was 185,000 lots, reflecting inclusion of several major SMA firms.

The robustness of this sample provides supports confidence in the relevance and reliability of the survey findings, which are referenced throughout this report.

Figure 1.2: Number of Lots Under Firm's Management, 2023/24



Source: AEC (2025).

The results of this survey are referenced throughout this document as the market research findings (MRF) and sourced as AEC (2025).

2. SITUATION ANALYSIS

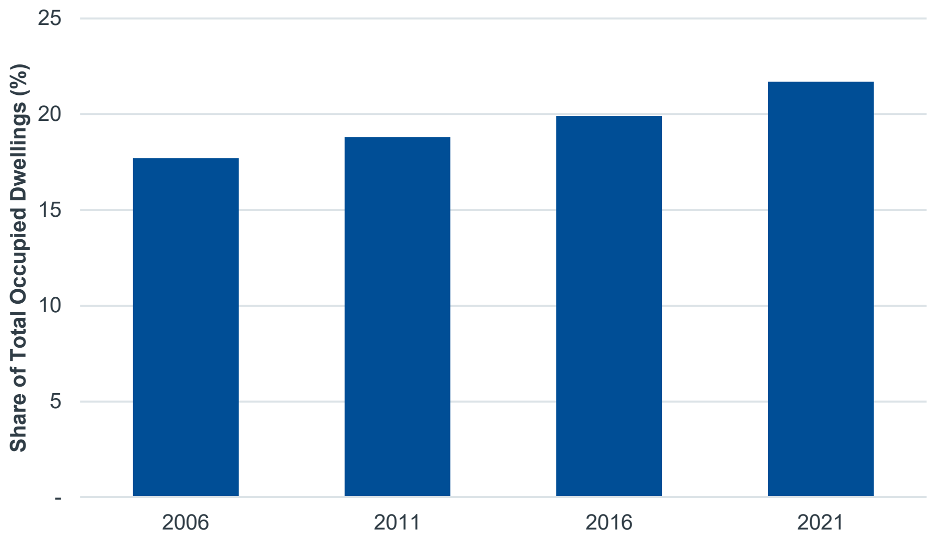
This section provides an overview of the strata sector in NSW, focusing on the growing importance of strata properties (further detail provided in Appendix A), the complexity of the insurance supply chain, and the evolving legislative landscape. It sets the context for understanding the strata insurance market, an environment that has historically been opaque and characterised by multiple layers of intermediation and different remuneration structures. Given the limited publicly available information/ data, insights presented in this section are drawn from both existing literature and commissioned industry stakeholder research.

2.1 GROWING IMPORTANCE OF STRATA PROPERTIES IN NSW

The residential strata property sector in NSW has witnessed significant growth over the past decade. This expansion reflects broader societal shifts, driven by rapid population growth, urban consolidation, and a structural preference toward higher-density housing typologies, particularly within metropolitan areas such as Sydney.

A defining feature of this transformation is the increasing prevalence of attached dwellings, such as apartments, units, and townhouses, which have emerged as more accessible alternatives to standalone houses in the context of escalating housing affordability pressures. The 2021 Australian Bureau of Statistics (ABS) Census confirms this trajectory, revealing that 21.7% of all occupied dwellings in NSW are apartments, a notable rise from 19.9% in 2016 and 18.8% in 2011 (see Figure 2.1). This proportion far exceeds the national average of 14.2%, underscoring the distinctive trend towards vertical living in NSW and reliance on strata schemes. The shift is most concentrated in Greater Sydney, which accounts for more than 89% of the state's apartment stock, while Regional NSW contributes just 10.8%.

Figure 2.1: Apartments as a Proportion of Total Occupied Dwellings, NSW



Source: ABS (2007; 2012; 2017; 2022), AEC.

This surge in attached dwellings has driven a proportional increase in the number of strata schemes across NSW. According to the City Futures Research Centre at UNSW, NSW is currently home to over 91,000 strata and community title schemes, representing approximately a quarter of all such schemes nationally. The overwhelming majority of these schemes, approximately 95%, comprise residential lots (SCA, 2020).

To accurately measure the size of the strata market, it is useful to consider the number of lots rather than just the number of schemes. Strata schemes can vary widely in size, from small townhouse developments to high-density apartment complexes with hundreds of individual lots. Between 2014 and 2024, the number of strata schemes in NSW grew by 37%, while the number of registered lots increased by a striking 81%, pointing to a strong upward trend in the average size of schemes (see Table 2.1). As of 2024, schemes comprising more than 51 lots, represent a full 35% of all registered strata lots, despite only constituting 3% of total scheme numbers (UNSW, 2025). This concentration of lots within a smaller number of increasingly complex developments poses significant implications for the management and governance of strata communities.

Table 2.1: Number of Strata Development Schemes & Lots Registered, 2011 vs 2024

Strata Market	2014	2024	Growth (%)
Number of Development Schemes			
New South Wales	66,821	91,346	37%
Australia	219,887	368,234	67%
Number of Lots Registered			
New South Wales	594,389	1,073,277	81%
Australia	1,489,048	3,191,244	114%

Source: UNSW (2025).

The total value of NSW strata assets represents a significant portion of the property market, encompassing the market value of individual lots and common property, which includes items such as landscaped areas, pools, footpaths, security systems, parking facilities, and elevators. **From 2018 to 2024, the total insured value of strata properties in NSW climbed from $366 billion to $486 billion, representing a 33% increase (UNSW, 2018; 2025). This growth reflects both an increase in the number of insured properties and the rising replacement cost of construction and infrastructure.** Strata properties have consequently emerged as a key asset class within the broader real estate and insurance sectors, necessitating robust frameworks for financial planning, long-term asset renewal, and risk management.

The growth of the strata property market has also catalysed the development of an expansive service ecosystem. According to the Australasian Strata Insights Report (UNSW, 2025), the strata industry directly employs over 2,100 individuals in NSW. The industry supports a broad network of ancillary services, ranging from building maintenance and compliance professionals to financial administrators and legal advisors. As demand continues to rise, the need for specialist expertise and dedicated management capacity is expected to increase correspondingly.

Why the Strata Sector Matters?

Looking ahead, the importance of strata properties in NSW is set to grow even further. It is currently forecast that by 2040, more than half of Greater Sydney's population will reside in a strata-titled property. With over $486 billion in insured value, more than 1 million registered lots, and a growing share of the population residing in strata-titled dwellings, the need for sophisticated governance, professional management, and sustainable financial structures will continue to grow.

As developments scale up in size and diversify in amenities, the responsibilities placed on OCs and SMAs are becoming more complex. Recent data suggests that SMAs are managing a growing volume of lots, with the average number per full-time strata manager rising from 680 lots in 2020 to 852 lots in 2024 – an increase of 25% (UNSW, 2020; 2025). Many agencies are responding by hiring additional or specialist staff, investing in training, or adopting new technologies. Yet, profitability is being squeezed. Average operating profit margins for SMAs have declined from 33% in 2005 to 23% in 2022, reflecting the challenges of scaling service delivery in a higher-density housing market (Macquarie, 2024).

Affordability challenges continue to compound pressures within the strata sector. While strata-titled properties have traditionally offered a more accessible pathway into home ownership, rising levies, insurance premiums, and regulatory compliance costs are steadily increasing the overall financial burden. These costs are flowing through to both owner-occupiers and renters, many of whom are already grappling with mortgage stress and rental affordability amid elevated interest rates and broader cost-of-living pressures. Although it is important to acknowledge that OCs have also benefited from substantial increases in property values in recent years, the growing strain on day-to-day affordability has prompted both policymakers and industry stakeholders to scrutinise the underlying cost structures of the sector – particularly the role and pricing of strata insurance.

2.2 STRATA INSURANCE & ITS COMPLEX SUPPLY CHAIN

Residential strata title insurance (Strata insurance) is a specialist product considered a type of general insurance established to assist individuals (owners) and corporations (underwriters) in managing exposure by pooling resources to cover shared risks. It generally covers common property under the management of the Strata Scheme including common areas, wiring, lifts, pools, car parks, walls, windows, ceilings and floors. However, strata insurance does not cover individual contents within privately owned lots, such as carpets, curtains, blinds, light fittings, and non-fixed electrical appliances. For these, individual owners must obtain separate contents insurance policies.

Strata insurance is compulsory in NSW, ensuring strata schemes maintain financial protection against unforeseen damages and liabilities. The bespoke nature of strata insurance underwriting means that risk assessments must be tailored to individual schemes, ranging from simple duplexes to large mixed-use complexes with hundreds of lots. This makes strata insurance a more intricate product, requiring greater expertise in risk management, financial oversight, and policy structuring.

2.2.1 A RISING COST BURDEN: PREMIUMS AND EXCESSES

A major concern for property owners and OCs is the sustained escalation in insurance premiums and excesses. Between 2016 and 2020, the number of registered strata schemes in NSW increased by 8.6%, rising from 77,330 to 83,971 (Johnston *et al*, 2021). Over the same period, total insurance costs surged by 65.7%. Annual premium increases consistently reached double-digit percentages for several consecutive years, as shown in Table 2.2.

Table 2.2: NSW Estimated Costs of Insurance, 2016 – 2020

Year	Strata Schemes (no.)	Total Premiums (000)	Total Insurance Costs (000)	Total Insurance Cost Increase (%)
2020	83,971	$469,090	$665,645	14.3%
2019	82,331	$416,419	$582,493	17.7%
2018	80,664	$346,485	$494,695	18.7%
2017	78,997	$303,685	$416,880	3.8%
2016	77,330	$278,610	$401,750	-

Source: Johnston *et al* (2021).

Data from the ACCC confirms that strata insurance premiums have continued to rise beyond 2020, often outpacing inflation and placing increased financial pressure on OCs (ACCC, 2023). One insurer reported an average premium increase of more than 60% per strata scheme between 2020 and 2024 (SCA, unpublished). These sustained cost escalations are driven by several factors, including rising building repair and reconstruction expenses, higher global reinsurance pricing, and the growing frequency and severity of extreme weather events (Insurance Council of Australia, 2024).

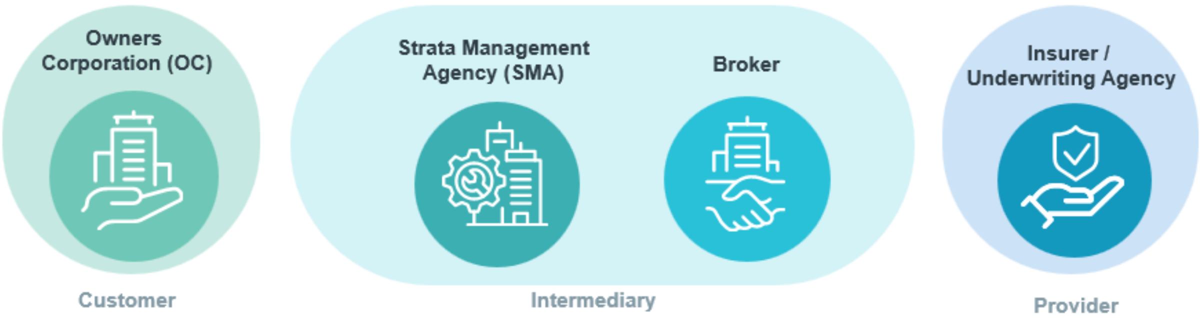
In addition to rising premiums, standard policy excesses have also increased substantially in recent years. Excess costs have escalated from approximately $250 a few years ago to $500, $1,000 in 2021, and $1,500 to $2,000 in 2023, impacting overall affordability for policyholders (Trowbridge, 2023). While higher excess levels can encourage more responsible claims behaviour and align with principles of risk-sharing, the concurrent rise in both premiums and excesses has compounded affordability pressures for strata owners.

2.2.2 SUPPLY CHAIN

The provision of strata insurance follows a business-to-customer (B2C) supply chain model, where the OC, as the end user and payer of fees, finances all services involved in securing insurance coverage. The most common strata insurance supply chain involves the following stakeholders:

- **OC:** The governing body of lot owners responsible for securing insurance coverage.
- **SMA:** Acts as an intermediary, assisting the OC with insurance procurement, administrative management, and compliance.
- **Broker:** Works on behalf of the OC to obtain quotes, liaise with insurers, negotiate coverage, and manage claims.
- **Underwriting Agency:** A specialist entity that assesses risks, structures insurance policies, and operates on behalf of insurers.
- **Insurer:** The insurance company that underwrites the strata policy, providing financial protection against insured risks.
- **Reinsurer**: Insurers obtain reinsurance coverage to mitigate large-scale claims, ensuring financial stability.
- **Valuer:** Engaged to assess building replacement costs and determine insurance coverage requirements.

Figure 2.2: Strata Insurance Supply Chain



Source: AEC.

The model and process can vary across the industry, however, the most common process for securing strata insurance follows these steps:

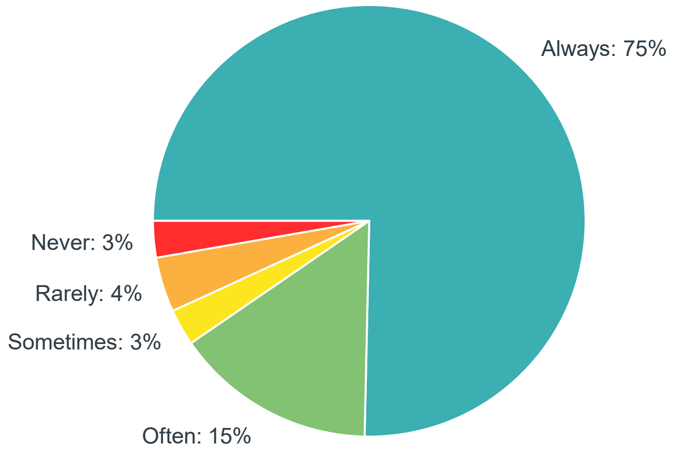
1. OC engages a SMA to oversee insurance-related tasks, ensuring compliance and administrative coordination.
2. SMA engages a broker to source and negotiate suitable policies on behalf of the OC.
3. Broker interacts with an underwriting agency, which assesses risks and structures insurance policies tailored to the strata scheme's specifications.
4. Underwriting agency liaises with an insurer, finalising policy terms and issuing coverage.
5. Insurer provides financial protection against insured risks, guaranteeing coverage under the agreed terms.
6. Reinsurers sit behind insurers, ensuring risk is distributed and financial stability is maintained.
7. SMA engages a valuer, ensuring building valuation aligns with insurance requirements to avoid underinsurance.

Across these stages, SMAs may deliver up to 47 distinct services, including quotation, policy placement and renewal, insurance valuations, claims handling, financial management, advice and recordkeeping, negotiation and liaison with brokers and insurers, and insurance finance facilitation (Johnston *et al*, 2021). The scope and scale of these responsibilities vary based on the terms of engagement between the SMA and OC.

According to the MRF, approximately 90% of SMAs in NSW “always” or “often” procure insurance on behalf of their clients (see Figure 2.3). This high degree of delegation reflects two key realities:

- Many OCs lack the time, resources, or expertise to manage insurance procurement independently
- SMAs and brokers bring specialist knowledge of the strata sector and regulatory frameworks, enabling them to secure appropriate coverage and maintain compliance.

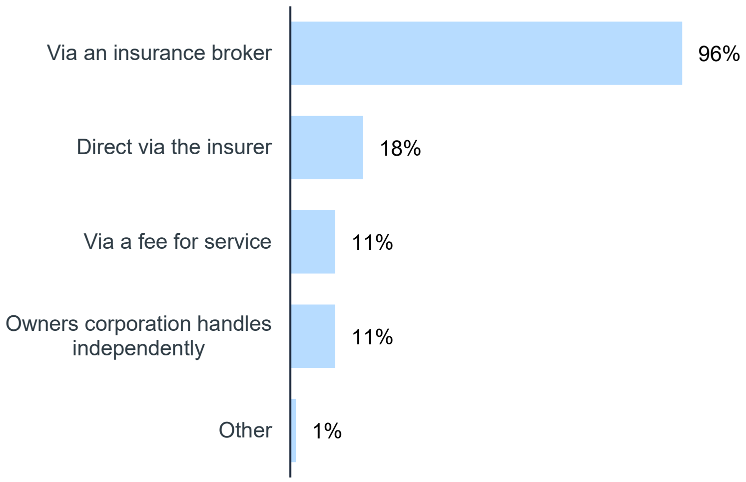
Figure 2.3: Share of SMAs Procuring Strata Insurance on Behalf of OCs



Source: AEC (2025).

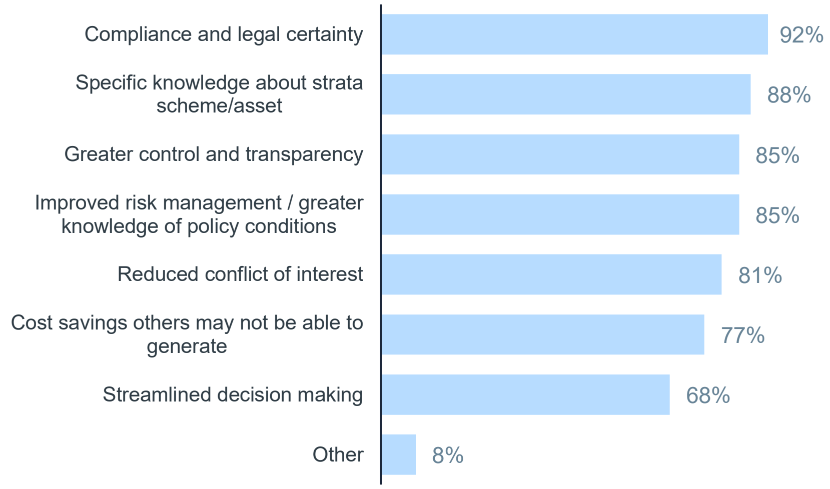
The supply chain has also evolved in response to regulatory changes. **Legislative reforms introduced in NSW in 2015 mandate that SMAs obtain at least three insurance quotes annually. This requirement has significantly increased broker involvement, with 96% of SMAs now relying on brokers to secure strata insurance (see Figure 2.4). SMAs cite legal compliance, specific knowledge about strata schemes, and improved risk management as the primary reasons for engaging brokers (see Figure 2.5).**

Figure 2.4: Methods Employed by SMAs to Secure Strata Insurance Policies



Note: May sum to more than 100% as SMA’s employ multiple options
Source: AEC (2025).

Figure 2.5: Benefits of Procuring Through Preferred Method

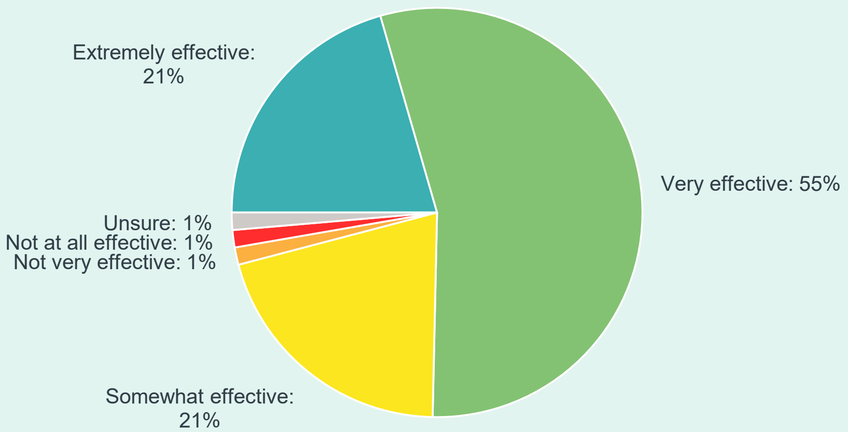


Note: May sum to more than 100% as SMA's employ multiple options
Source: AEC (2025).

SCA Strata Insurance Best Practice Guide

To support the sector in navigating these complexities, SCA released the SCA Strata Insurance Best Practice Guide in 2024. Industry engagement findings indicate that 97% of SMAs found the guide effective in helping them comply with new legislative requirements - particularly around disclosure and transparency when quoting and invoicing for strata insurance. Among these respondents, 55% described the guide as very effective, while 21% rated it as extremely effective.

Figure 2.6: Perceptions of the Effectiveness of SCA Strata Insurance Best Practice Guide

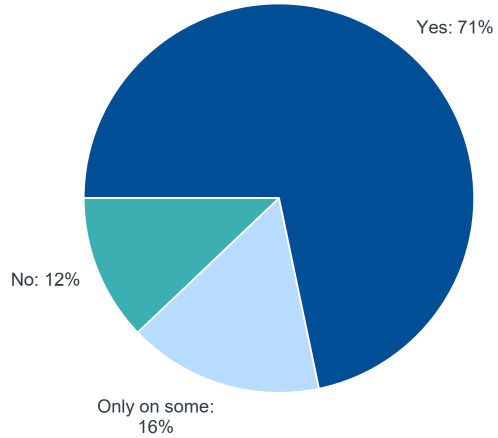


Source: AEC (2025).

2.2.3 REMUNERATION STRUCTURES IN STRATA INSURANCE

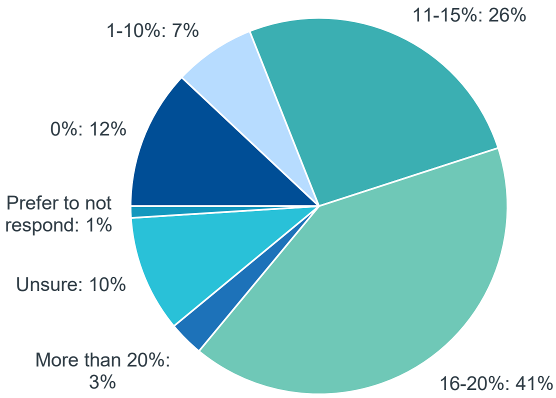
According to the MRF, around 71% of SMAs in NSW accept commissions for insurance-related services, with an additional 16% accepting them in “some cases” (see Figure 2.7). A significant proportion, 67% of SMAs, report remuneration in the range of 11% to 20% of the gross base premium, a level that aligns with findings from the broader literature review and reflects common market practices (see Figure 2.8). These figures do not include additional broker fees, which are often layered on top of SMA commissions, further increasing the total intermediary cost to OCs.

Figure 2.7: Proportion of SMAs Accepting Commissions



Source: AEC (2025).

Figure 2.8: Proportion of Premium Attributed to SMA Remuneration



Source: AEC (2025).

The involvement of multiple intermediaries, namely SMAs and insurance brokers, adds considerable complexity to the strata insurance supply chain. While these actors play critical roles in facilitating the procurement process, they also give rise to a multi-tiered remuneration framework. Two dominant remuneration models currently prevail:

- **Commission Rebate/ Broker Fee Model:**
    - Under this structure:
        - Once an OC selects an insurance product, the insurer or underwriting agency pays a commission to the broker, typically around 20% of the gross base premium (though this can vary across providers).
        - Rather than retaining the full commission, brokers often rebate a significant portion to the SMA as part of commercial arrangements (ACCC, 2020). According to the MRF, the majority of SMAs reported receiving between 11% and 20% of the gross base premium (see Figure 2.8).

        - To offset the lost income from rebates, brokers may also charge additional fees, known as broker fees, on top of the premium. These fees can range from 5% to 20% of the gross base premium, with the latter as high as the commission itself (Trowbridge, 2022c; McGrathNicol, 2025).
    - Anecdotal evidence suggests most brokers require at least 7% to break even and up to 15% to operate sustainably (Trowbridge, 2022c). In some cases, broker fees exceed the net commission retained after rebating. The combined effect of commission rebates plus broker fees means the total intermediary remuneration can range from 20% to 40% of the gross base premium, significantly increasing the total insurance costs borne by OCs. Broker fees are often an overlooked expense in discussions surrounding intermediary compensation.
- **Fee-Based Model:**
    - An alternative to the commission-based model is the fee-based model, more commonly used for larger or more complex strata schemes. In this arrangement, brokers obtain net base premiums from insurers or underwriting agencies (net quoting), meaning the premium is quoted without commissions included. Instead of receiving a commission, SMAs and brokers charge a fee for their services, which is approved by the OC before implementation. The fee is then shared between the broker and SMA, subject to agreed terms.

Even within these two dominant models, hybrid arrangements are prevalent across the sector, further complicating clarity around financial flows. In some cases, SMAs receive both commission and fee-based payments, while others rebate a portion of the commission back to OCs – adding an extra layer of variability to how remuneration is structured and perceived across the sector.

Second Tranche of Reforms and the Growing Focus on Transparency

In response to growing concerns about affordability and the opaque nature of intermediary compensation, the NSW Government introduced a suite of reforms in 2024, which came into effect on 3 February 2025. These reforms aim to standardise and increase fee disclosure, making strata insurance costs clearer to OCs and stakeholders.

Under the new legislation, SMAs are now required to provide itemised disclosures outlining the full insurance cost structure prior to final policy selection (NSW legislation, 2025c). This includes:

- The base premium
- Commission amounts
- Broker fees
- Any other intermediary charges.

These reforms prevent intermediaries from presenting bundled quotes or concealing individual cost components. The intention is to empower OCs with clearer and more accessible information, allowing them to critically evaluate insurance costs and intermediary arrangements.

While broadly welcomed, the real impact of these reforms remains to be assessed. As of mid-2025, implementation is still in its early stages, and industry-wide data on behavioural change or pricing outcomes is limited. Importantly, informed decision-making remains a challenge, many OCs still lack the knowledge base to assess fair pricing or typical remuneration benchmarks. A more educated OC base will be necessary to recognise acceptable remuneration benchmarks, as excessive fees – particularly approaching 40% of the base premium – are generally viewed as unreasonable. The industry shift toward greater transparency is a step forward, but achieving widespread understanding and accountability among stakeholders will take time and a conscious education campaign.

Issues with Current Remuneration Practices

Despite reform efforts, several persistent challenges continue to characterise intermediary compensation in strata insurance:

- **Total Intermediary Costs Can Be Substantial:** While 25% in combined commission and fees is considered common, charges approaching 40% are generally viewed as excessive. Recent regulatory amendments have introduced stricter disclosure requirements, aiming to provide greater clarity around financial flows and remuneration structures and quantum. While these reforms will improve oversight and transparency, they also place responsibility on OCs to educate themselves about standard market rates, which remains challenging in practice, due to industry opacity.
- **Remuneration Scales with Premium Growth:** Given that commissions and broker fees are tied to the gross base premium, they rise proportionally as premiums increase. In recent years, surging premiums have led to substantial escalations in intermediary remuneration, often without a corresponding increase in service quality or workload justification. This is not to suggest it is unwarranted, but better articulation of the value of services is likely required in the industry. It is acknowledged that there are instances where capping mechanisms have been introduced to temper remuneration increases.
- **Impact on Strata Management Fees:** Many SMA's business models rely on strata insurance remuneration, evidenced by the use of this commission revenue to subsidise other strata management costs, effectively lowering direct management fees while relying on insurance transactions to maintain financial sustainability (SCA, 2020). This practice has been criticised for distorting market pricing, as strata management fees appear lower than they otherwise would be if commissions were removed from the equation. This implicit cross-subsidisation can distort pricing and complicate efforts by OCs to compare service providers on a like-for-like basis.
- **Cross-Subsidisation Across SMA Portfolios:** SMA commissions do not necessarily align with the level of service provided to individual strata properties. Instead, commissions are often distributed across a SMA's full portfolio, functioning as a cross-subsidisation mechanism that is not always transparent to OCs. This can create disparities in how costs are allocated among different strata schemes.
- **Potential Conflicts of Interest:** Since commissions and fees are based on premium size, SMAs may favour insurance products that yield higher commissions, rather than selecting policies purely on the basis of value, risk coverage, and cost-effectiveness for the OC (ACCC, 2020). While the three-quote requirement in NSW and the recent disclosure requirements helps limit excessive influence, incentive structures remain a relevant concern in insurance decision-making.
- **Intermediary Complexity & Agency Issues:** Unlike standard insurance markets, strata insurance incorporates two intermediaries, SMAs and brokers, creating a multi-tiered arrangement that can lead to agency problems, where SMAs serve OCs but also maintain relationships with brokers, potentially complicating impartial decision-making.

2.2.4 REMUNERATION FROM INSURANCE-RELATED SERVICES AS A KEY REVENUE SOURCE

Strata insurance commissions play a critical role in shaping the overall structure of strata management fees, influencing how OCs are charged for services. When examining the proportion of strata commissions received by SMAs, it is important to consider how these commissions interact with total strata levies and the broader implications for the strata sector.

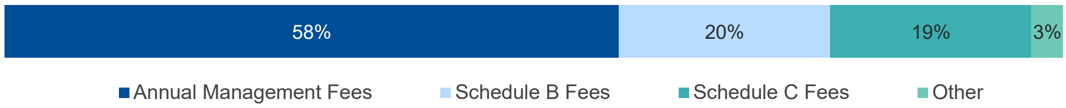
SMA remuneration consists of both fixed and variable components, with revenue streams typically derived from multiple sources, including:

- Base contract management fees
- Fee-for-service arrangements
- Accounting and tax administration
- Disbursements and debt recovery
- Facilities and property management
- Insurance commissions.

Annual base management fees - covering core management duties - are fixed and agreed upon contractually between the OC and SMA. According to the MRF, these fees account for approximately 58% of SMA revenue on average (see Figure 2.9). Additional revenue streams include:

- Schedule B fees (charges for additional services): 20%
- Schedule C income (commissions, rebates, discounts, training): 19%
- Other revenue (miscellaneous sources): 3%.

Figure 2.9: SMA's Primary Revenue Sources



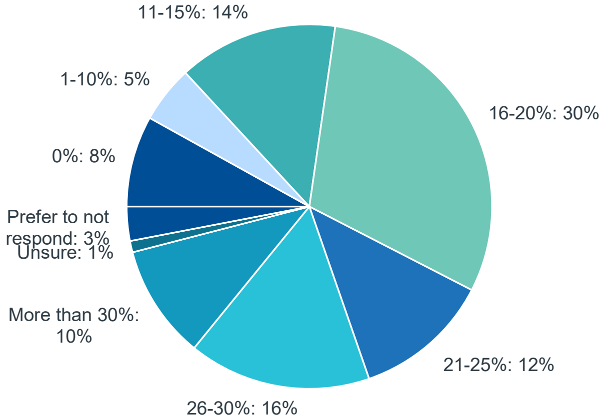
Source: AEC (2025).

Focusing specifically on insurance-related services, including commissions and fee-for-service arrangements, around 68% of SMAs report deriving more than 15% of their total revenue from strata insurance-related services (see Figure 2.10). This proportion aligns with findings from the broader literature review. There is, however, significant variation by geography and business model:

- In the Sydney metropolitan area, approximately 35% of SMAs report earning over 20% of their revenue from insurance services
- In regional NSW, the figure is considerably higher, with up to 60% of SMAs reporting more than 20% of total revenue from this source.

This highlights that regional SMAs are likely to experience a far greater transitional impact of the proposed changes.

Figure 2.10: Share of SMA's Total Revenue From Insurance Services



Source: AEC (2025).

Many SMA's business models rely on strata insurance remuneration, evidenced by the use of this commission revenue to subsidise other revenue streams, such as annual base management fees. In some regional cases, insurance commissions are estimated to subsidise between 48% and 75% of SMA operations (SCA, 2020). This level of dependency has sparked concerns that management fee structures may appear artificially low, masking the true cost of strata service provision. This has significant implications for market comparison, pricing integrity, and long-term sector sustainability.

As the industry faces potential reforms that could prohibit SMA's strata insurance commissions, the impact on other strata fees must be considered. OCs ultimately bear the cost of strata-related expenses, and any shift in remuneration models will likely influence how strata fees are structured moving forward. The short and long-term consequences of these changes, including affordability concerns and adjustments in service pricing, are explored in **Section 4**.

2.3 NSW LEGISLATIVE CHANGES

Concerns regarding transparency, accountability, and financial practices within the strata industry, particularly in relation to strata insurance, have prompted the NSW Government to introduce significant legislative reforms over the past decade. Table 2.3 outlines the multiple key legislative changes affecting SMAs and their responsibilities in securing strata insurance for OCs since 2016. While further legislative reforms are anticipated, these have been excluded from this study as they do not specifically or materially impact strata insurance.

Table 2.3: Key Legislative Changes to Strata Insurance in NSW

Legislation/ Amendment (Timing)	Key Changes Relating to Strata Insurance
Strata Schemes Management Act 2015	
30 November 2016	• SMAs must provide OCs with a minimum of three strata insurance quotes from different insurers • SMAs must disclose all commissions and gifts
Strata Managing Agents Legislation Amendment Act 2024	
8 November 2024	*Amendment of Strata Schemes Management Act 2015* • Increased penalties for breaches of existing obligations for SMAs

3 February 2025	*Amendment of Strata Schemes Management Act 2015*
	• Introduction of stricter disclosure requirements, including:
	    o An itemised breakdown of charges, such as the base premium amount, commission amounts, broker fees, and any additional charges
	    o The persons to whom the commission and broker fee will ultimately be paid
	    o A statement as to whether the person providing the quotation is connected with the agent
	• SMAs must provide insurance quotations to OCs as soon as practicable

3 February 2025	*Amendment of Property and Stock Agents Regulation 2022* • SMAs are banned from receiving strata insurance commission if the OC independently obtains the quote and arranges payments, that is, without the assistance of the SMAs.

Source: NSW Legislation (2025a; 2025b; 2025c), AEC.

The legal requirements for SMAs with respect to strata insurance have evolved in two distinct waves, first with the *Strata Schemes Management Act 2015,* which took effect in 2016, and more recently with the *Strata Managing Agents Legislation Amendment Act 2024*, which introduced stricter disclosure requirements in 2025.

The 2015 reforms, implemented in 2016, aimed to improve transparency and limit conflicts of interest by requiring SMAs to obtain at least three insurance quotes and disclose any commissions received. These measures responded to concerns that SMAs might prioritise policies offering higher commissions over those best suited to OCs. In practice, this led to increased reliance on brokers, who possess the regulatory licences and expertise needed to manage the quote process. The result was further entrenchment of the commission rebate/ broker fee model, where SMAs retained a share of commissions while brokers added fees to maintain revenue.

As premiums rose, concerns about cost transparency and remuneration structures intensified, prompting the 2024 amendments, which took effect on 3 February 2025. These reforms mandate detailed fee disclosures, including base premiums, commissions, broker fees, recipients, and related-party relationships (NSW legislation, 2025c).

For this report, the regulatory baseline is defined by the Strata Schemes Management Act 2015, as amended in 2025 (NSW Legislation, 2025a). Any analysis of potential reforms, such as a possible prohibition on SMA commissions, must be considered in light of these recent changes.

Current Strata Schemes Management ACT accessed 2 June 2025

166 Strata managing agent to obtain insurance quotations

(1) A strata managing agent must provide the owners corporation with not less than 3 quotations from different providers for each type of insurance proposed by the agent to the owners corporation or provide written reasons to the owners corporation if less than 3 quotations are provided. Maximum penalty—

(a) for a corporation—500 penalty units, or

(b) otherwise—100 penalty units.

(2) A quotation must include the following—

(a) a breakdown of charges, including the following if applicable—
(i) the base premium amount, other than an amount referred to in subparagraph (ii),
(ii) the commission, other than any broker fee, expressed as an amount and as a percentage of the base premium amount,
(iii) the broker fee, expressed as an amount and as a percentage of the base premium amount,
(iv) the stamp duty amount,
(v) levy amounts,
(vi) underwriting agency fees,
(vii) the goods and services tax amount,
(viii) other amounts or percentages relating to the charges prescribed by the regulations,

(b) the persons to whom the commission and broker fee will ultimately be paid,

(c) a statement as to whether the person providing the quotation is connected with the agent.

(3) The strata managing agent must provide the owners corporation with the quotations or written reasons as soon as practicable to enable the owners corporation to make a decision about the insurance.

2.3.1 THE POTENTIAL REGUALTORY CHANGE BEING EXAMINED

The NSW Government has signalled its intent to reform the remuneration structure associated with strata insurance, in light of ongoing concerns around affordability and potential conflicts of interest. However, no final policy has been announced.

Although a variety of options are likely under consideration, this report and the MRF, focus on a specific policy scenario: a prohibition on SMAs receiving commissions from insurers in connection with strata insurance policies arranged on behalf of OCs. If enacted, reforms could potentially eliminate commission-based remuneration for SMAs, forcing a transition to alternative remuneration models, such as fee-based structures.

The subsequent analysis in this report, explores the potential impacts of that reform pathway, including implications for OCs, SMAs, brokers, insurers, and regulatory agencies. It is important to note that under current jurisdictional arrangements, brokers, who are regulated at the Commonwealth level, would continue to be permitted to receive commissions and will not be subject to the prohibition on commissions proposed by the NSW government, further complicating the remuneration landscape.

A potential prohibition is one possible future policy direction, developed to assess how such a change could affect industry practices and stakeholder outcomes, particularly in the context of recent legislative reforms that have yet to be fully embedded.

3. MARKET RESEARCH FINDINGS

As part of this policy impact analysis, AEC conducted a targeted market research study to gather both quantitative and qualitative insights from key stakeholders in the NSW strata sector. The research focused on stakeholder awareness, perceptions, and expectations concerning recent legislative amendments to the Strata Schemes legislation, as well as a possible prohibition on strata insurance commissions paid to SMAs. It also explored views on alternative remuneration models, willingness to pay, and the operational implications of these regulatory changes. This section presents the key findings of that study, with a specific emphasis on how different stakeholder groups – particularly SMAs and OCs – view the current landscape and proposed reforms, noting that a detailed report AEC (2025) supports this summary.

3.1 AWARENESS & EXPECTED IMPACTS OF RECENT LEGISLATIVE CHANGES

The NSW Government has introduced a suite of legislative amendments from December 2023 through February 2025, including the second tranche and the second phase of the Strata Schemes Legislation Amendment Bill 2025. The research assessed the level of stakeholder awareness regarding these changes, the effectiveness of their implementation (where applicable), and expectations about their future impact.

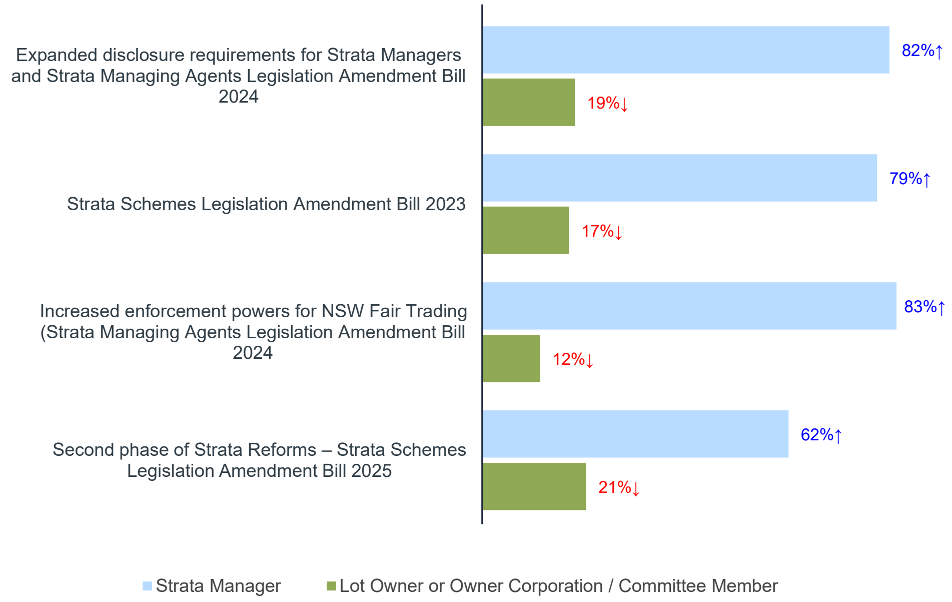
3.1.1 STAKEHOLDER AWARENESS OF LEGISLATIVE AMENDMENTS

Survey findings highlight a clear awareness gap between SMAs and OCs:

- **SMAs:** Familiarity with the reforms ranged from 62% to 83%. The highest awareness (83%) was recorded for the increased enforcement powers for NSW Fair Trading, likely due to its immediate relevance and enactment. The lowest awareness (62%) was noted for the second phase of strata reforms (Strata Schemes Legislation Amendment Bill 2025).
- **OCs**: Awareness was significantly lower, ranging between 12% and 26%. Interestingly, the highest familiarity was recorded for the second phase of strata reforms (26%), and the lowest for increased enforcement powers for NSW Fair Trading (12%). Only 19% of OCs were aware of the expanded disclosure requirements introduced in February 2025, a particularly salient point given that these reforms were designed to improve transparency in insurance-related remuneration.

These findings confirm a consistent divergence in knowledge between industry professionals and lot owners, with SMAs being considerably more informed about recent legislative developments.

Figure 3.1: Familiarity of Strata Schemes Legislation Amendments, SMAs vs OCs



Source: AEC (2025).

3.1.2 PERCEIVED IMPACTS OF LEGISLATIVE AMENDMENTS

All respondents were asked to consider the overall impact of the suite of legislative changes introduced from December 2023 to February 2025 (excluding the second phase of the 2025 reforms). The results reveal a nuanced understanding of the reforms' implications, with a mix of anticipated benefits and concerns:

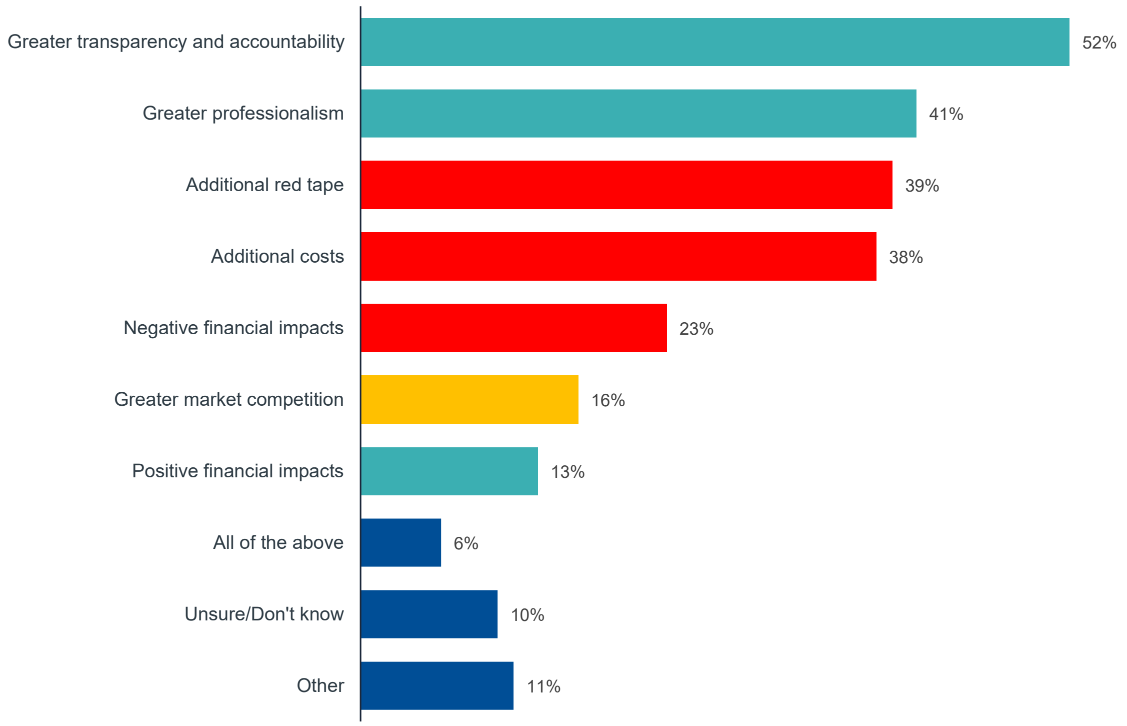
- **Greater transparency and accountability emerged as the most widely recognised impact**, cited by 52% of respondents. This aligns with the core objective of the reforms, which aim to enhance visibility into remuneration practices and insurance cost structures.
- **Increased professionalism in the sector** was noted by 41%, reflecting expectations that the reforms will raise standards of conduct, particularly among SMAs.
- **Additional red tape (39%) and increased costs (38%)** were cited nearly as often, suggesting stakeholder concern about the compliance burden and resource requirements involved in meeting new regulatory standards.

Far fewer respondents expected direct financial consequences from the reforms:

- Only 23% predicted negative financial impacts
- 16% anticipated greater market competition
- 13% foresaw positive financial impacts.

These responses indicate that while stakeholders largely see the reforms as directionally positive in terms of governance and oversight, there is apprehension about associated costs and administrative complexity. Greater market competition is seen as a benefit by some respondents and a cost to others.

Figure 3.2: Types of Expected Impacts of Legislative Amendments



Source: AEC (2025).

Drilling down further, the data reveals that SMAs are significantly more likely than OCs to anticipate operational and financial strain stemming from the reforms:

Table 3.1: Differences in Impact Perceptions, SMAs vs OCs

Expected Impact	OCs	SMAs
Red Tape	20%	59%
Additional Costs	24%	53%
Negative Financial Impact	7%	42%

Source: AEC (2025).

These variances likely reflect differing levels of engagement with the mechanics of compliance. SMAs, being responsible for implementing legislative requirements and managing reporting obligations, are understandably more sensitive to the administrative and financial demands imposed by reform.

By contrast, OCs, who tend to be less aware of the specific regulatory details, may underestimate the extent to which new obligations affect day-to-day operations and cost structures. **The results suggest that greater education and communication may be needed to ensure owners understand both the benefits and the real implementation costs associated with policy reform.**

3.1.3 PROJECTED INCREASE IN COMPLIANCE WORKLOAD

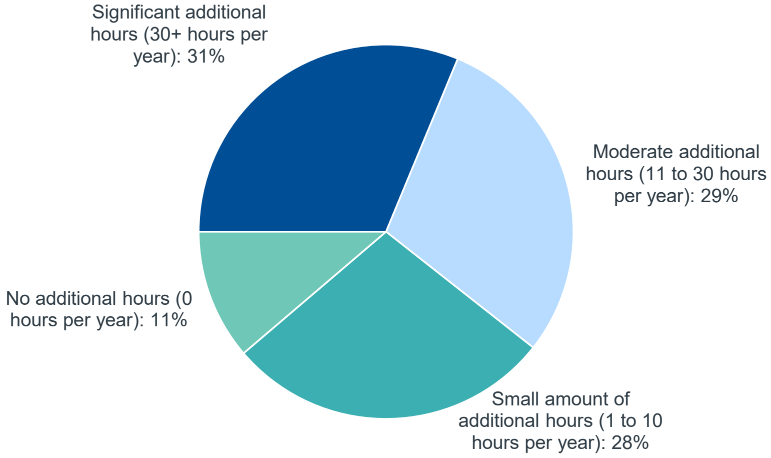
Further supporting these concerns, the survey asked participants to estimate the additional hours of work required per scheme per annum to comply with the legislative amendments. **The responses again reveal a significant gap in expectations**:

- 31% of all respondents anticipate a significant increase in hours
- 29% expect a moderate increase.

However, when analysed by stakeholder group, the disparity becomes more pronounced:

- 56% of SMAs believe they will require significant additional hours
- Only 10% of OCs share that view.

Figure 3.3: Additional Hours of Work Per Scheme Per Annum



Source: AEC (2025).

This finding underscores how reforms, while often perceived by owners as incremental, **translate into concrete time and resource demands for SMAs, who are responsible for implementing systems, tracking compliance, and engaging with new regulatory processes across multiple schemes.**

Overall, the findings from this segment of the research underscore a common pattern: **SMAs are more informed, more operationally affected, and more financially exposed to the implications of regulatory change.** Meanwhile, OCs, while broadly supportive of efforts to improve transparency, are not yet fully across the downstream effects on service delivery, cost recovery, or remuneration realignment.

3.2 AWARENESS & EXPECTED IMPACTS OF POTENTIAL REFORMS TO INSURANCE COMMISSIONS

As part of the market research, stakeholders were asked about their awareness of, and expectations regarding, the potential reforms to strata insurance commissions paid to SMAs. **The results reveal both a significant divergence in stakeholder awareness and distinct expectations about the practical and financial consequences of the reform.**

3.2.1 STAKEHOLDER AWARENESS OF THE POTENTIAL PROHIBITION

Survey findings show a sharp discrepancy between professional and volunteer stakeholder groups:

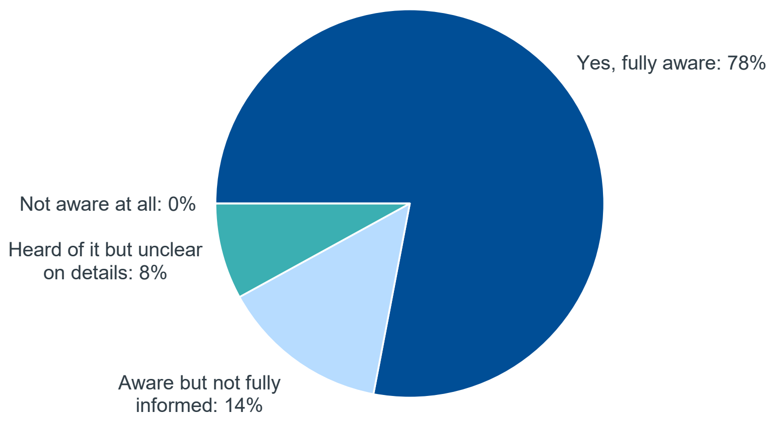
- 78% of SMAs indicated that they are aware of the potential prohibition. This high level of awareness reflects strong professional engagement and suggests that SMAs are closely monitoring reforms that could substantially impact their business models and revenue streams.
- In contrast, **only 31% of OCs reported awareness of the proposed changes**. This finding is especially notable given that the policy is intended to benefit OCs directly by reducing conflicts of interest.

This communication gap presents several risks:

- **Unpreparedness for fee restructuring:** OCs may not fully understand how the prohibition would affect the composition of strata fees, particularly if commissions are replaced by direct service charges.
- **Distrust if fees change unexpectedly**: If OCs encounter rising strata fees post-reform without understanding the context, it may foster suspicion and dissatisfaction.
- **Reduced engagement in reform processes**: Limited awareness hinders the ability of owners corporations to meaningfully participate in consultations, advocate for their interests, or hold service providers accountable during and after the transition.

These risks point to an urgent need for improved communication strategies and stakeholder education to ensure the reforms achieve their intended outcomes if it proceeds.

Figure 3.4: SMA Awareness of Proposed Reforms Prohibiting SMAs from Receiving Insurance Commissions



Source: AEC (2025).

3.2.2 OCS: SUPPORT FOR REFORM BUT CONCERN ABOUT TAKING ON THE ROLE THEMSELVES

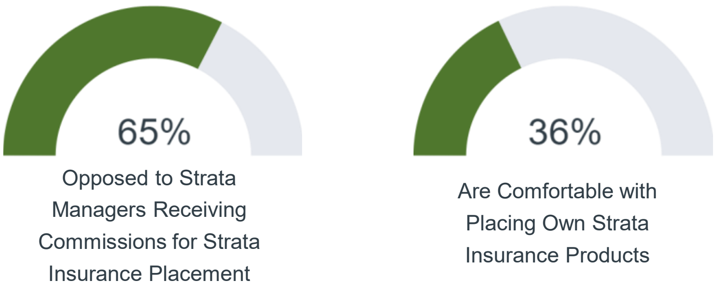
While SMAs have expressed strong concern about the loss of commission income, the MRF revealed equally compelling insights from OCs that help clarify why the reform is being pursued in the first place.

- **65% of OCs indicated opposition to SMAs receiving commissions for placing strata insurance on their behalf**, even with the February reforms providing full disclosure of the strata insurance costs breakdown. This reflects a broader perception among OCs that such arrangements may create conflicts of interest, or drive higher-than-necessary costs.

However, this support for change is accompanied by practical hesitations:

- **64% of OCs reported feeling uncomfortable placing insurance on their own**, suggesting limited confidence in navigating insurance markets without professional and informed support. This discomfort likely stems from the highly technical and specialised nature of strata insurance policies, which require detailed risk assessments, regulatory knowledge, and negotiation experience, ultimately leading to a high risk of OCs ‘getting it wrong’.

Figure 3.5: OCs View on SMA Commissions



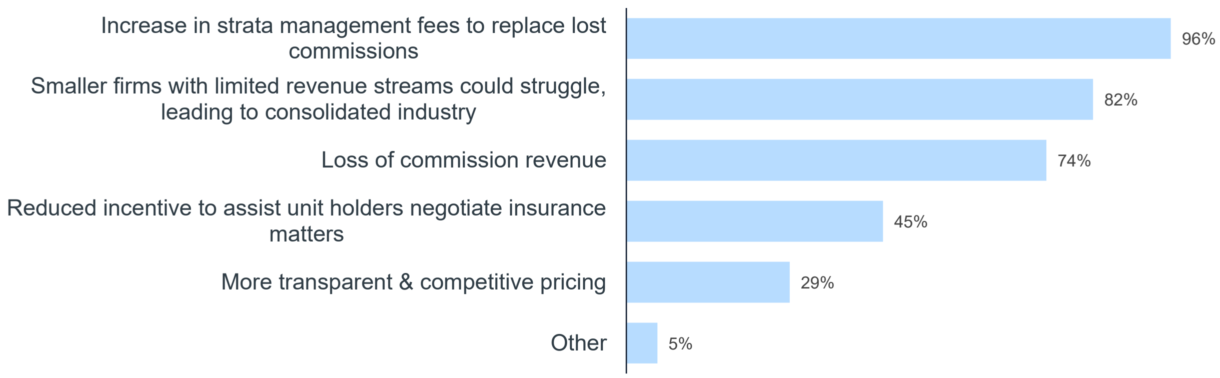
Source: AEC (2025).

3.2.3 PERCEIVED IMPACTS ACROSS THE SUPPLY CHAIN

Participants were also asked about the broader impacts they expect the possible prohibition will have on the strata insurance supply chain, including insurers, underwriters, brokers, SMAs, and consumers. Their responses varied significantly across stakeholder groups:

- **Impacts Expected by SMAs**: SMAs expressed strong concerns about the operational and financial fallout of the potential prohibition. The top three anticipated consequences were:
    - **Increase in strata management fees to offset lost commissions:** Cited by 96% of SMAs, this reflects widespread expectation that SMAs will need to restructure their revenue models by raising base or ancillary fees to replace commission income.
    - **Business viability pressures on smaller firms, potentially leading to industry consolidation:** 82% of SMAs expect that firms with narrow revenue bases will struggle under a commission-free model. This could trigger market consolidation, favouring larger players with diversified service lines.
    - **Loss of commission revenue streams:** While this is an obvious and direct impact, 74% of SMAs explicitly identified it as a key concern. For many, insurance commissions have historically subsidised broader operations (as noted in earlier sections), meaning their removal could undermine business sustainability unless alternative structures are developed.

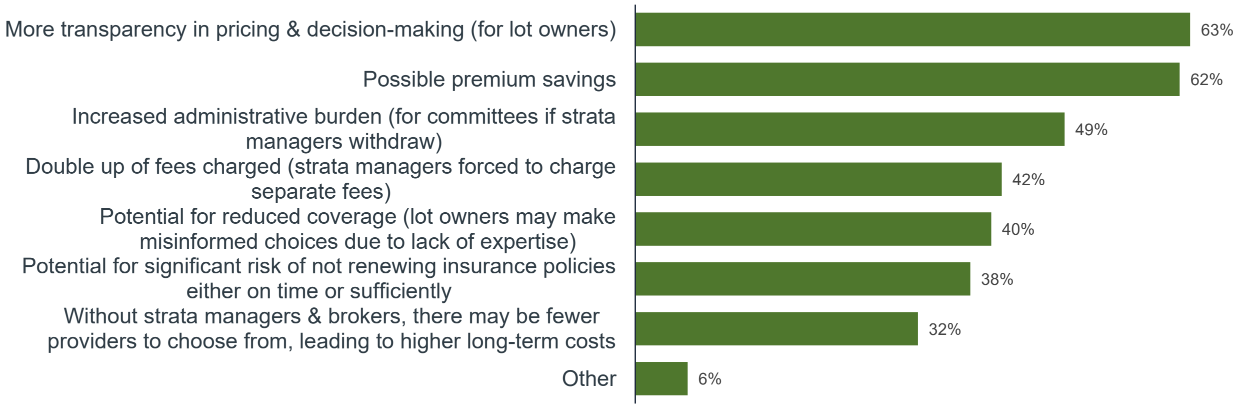
Figure 3.6: Impacts Highlighted by SMAs



Source: AEC (2025).

- **Impacts Expected by OCs**: Conversely, OCs were more focused on the potential benefits and administrative implications of reform. Their top three responses included:
    - **Improved transparency in pricing and decision-making:** 63% of owners cited this as a key advantage, reflecting optimism that the prohibition will clarify insurance costs and reduce perceived conflicts of interest in SMA recommendations.
    - **Possible premium savings:** 62% of owners expressed hope that premiums might decrease as a result of the potential prohibition. Whether these savings will materialise in practice remains uncertain.
    - **Increased administrative responsibilities for committees (if SMAs reduce involvement):** 49% of owners are concerned that if SMAs scale back their role in insurance procurement, particularly if commissions are removed, committees may need to assume greater administrative burdens themselves.

Figure 3.7: Impacts Highlighted by OCs

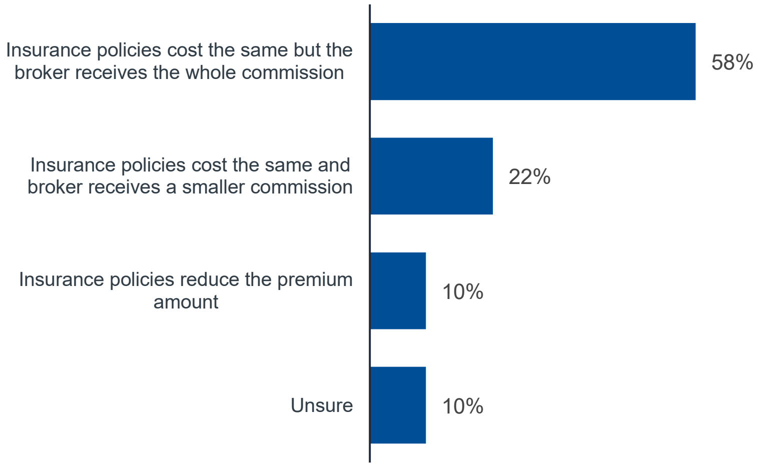


Source: AEC (2025).

3.2.4 ANTICIPATED COST SHIFTS: WHO BEARS THE BURDEN?

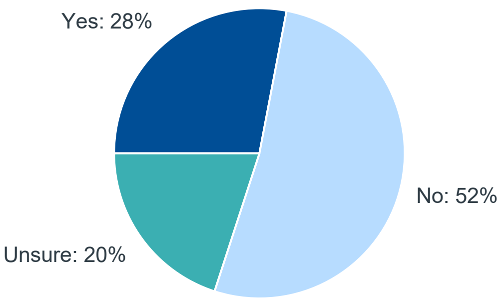
One of the key survey questions addressed perceptions of cost outcomes following the potential prohibition. **Notably, 58% of SMAs believe that there will be no change in total insurance costs, but that brokers will retain the full commission instead of it being shared with SMAs.** This suggests a common expectation that while the structure of remuneration may change, the absolute cost to the OC may remain largely unchanged – raising further questions about the effectiveness of the reform unless cost benefits are passed through, with only 10% expecting the insurance policies to reduce the premium amount.

Figure 3.8: Impacts if Insurance Brokers Unaffected by Prohibition



Source: AEC (2025).

Figure 3.9: Impact of Removing Commissions on Quality of Insurance Cover



Source: AEC (2025).

One of the critical areas explored in the research was how stakeholders perceive the potential impact of removing SMA commissions on the quality of insurance cover available to OCs. The results reveal a clear divergence in views between industry professionals and lot owners.

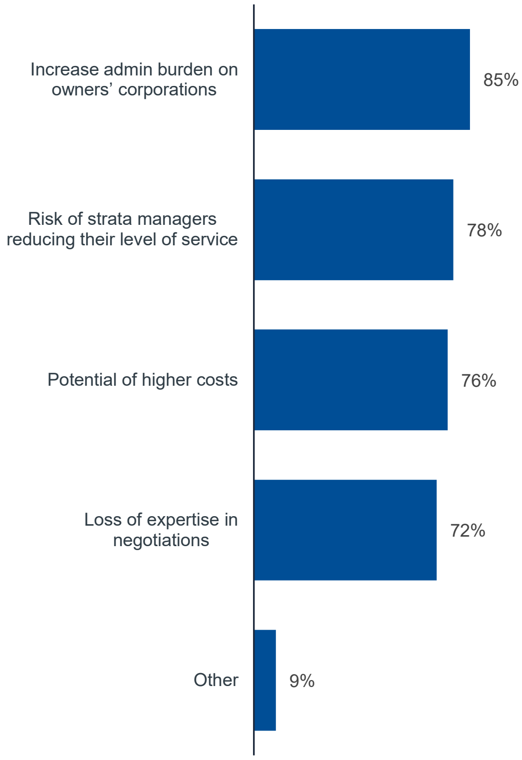
- **42% of SMAs believe that removing commissions will negatively impact the quality of insurance cover secured on behalf of OCs.**
- In comparison, only 12% of OCs share this concern.

This stark contrast reflects broader themes identified throughout the research. SMAs, who are responsible for the technical aspects of insurance procurement see direct links between remuneration and service quality. In contrast, most owners may not fully appreciate the behind-the-scenes work involved in brokering coverage, nor the extent to which commissions have historically subsidised these efforts. This could explain their lower level of concern over potential impacts on coverage quality.

Among the subset of respondents who believe that removing commissions will impact coverage quality, the top concerns include:

- **Increased administrative burden on OCs (85%):** Without commission-funded services, some SMAs may reduce their role in policy sourcing and claims coordination. This could shift complex insurance-related tasks onto volunteer committee members, many of whom lack technical expertise or capacity.
- **Risk of SMAs reducing their level of service (78%):** Respondents worry that removing commissions may reduce the incentive for SMAs to remain actively engaged in the insurance process, potentially resulting in less responsive support during renewals or claims.
- **Potential for higher costs (76%):** Some anticipate that OCs may ultimately pay more for the same services, either through increased base fees or via brokers charging for previously bundled tasks, without necessarily achieving net savings.
- **Loss of expertise in negotiations (72%):** A reduction in SMA involvement could mean less effective policy structuring and diminished representation during claims, particularly in complex schemes where tailored insurance solutions are critical.

Figure 3.10: Type(s) of Expected Impact of Removing Commissions



Source: AEC (2025).

3.3 PREFERRED FEE STUCTURE & WILLINGNESS TO PAY

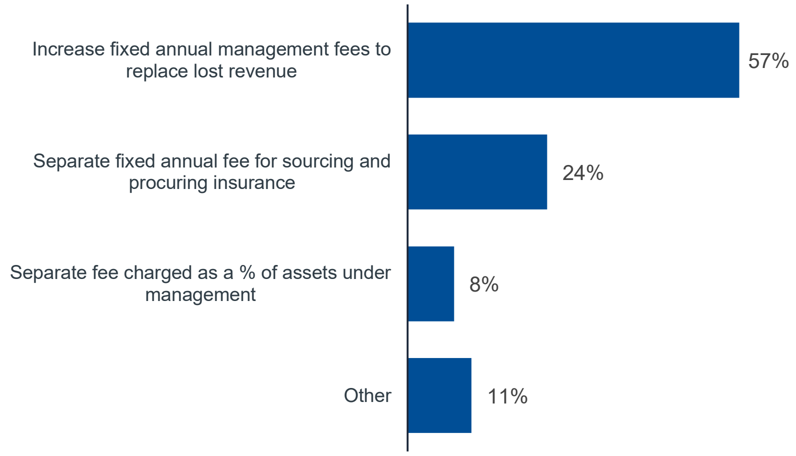
A possible prohibition on strata insurance commissions has sparked active consideration of alternative remuneration models among key industry stakeholders. As part of the market research, SMAs and other sector participants, excluding OCs, were asked to identify their preferred models and expected responses in a commission-free environment. Complementary questions were posed to OCs to evaluate their willingness to pay for strata insurance services and attitudes toward different fee structures.

Across both stakeholder groups, there was a general preference for fixed-fee arrangements, if a prohibition is enacted. However, it is important to recognise that in practice, SMAs may adopt a combination of fixed and variable fees to best represent fair value, depending on the nature and complexity of insurance-related services provided.

3.3.1 SMA RESPONSES: A SHIFT TOWARD FIXED FEES

When asked how they would respond if insurance commissions were prohibited, **more than half of SMAs (57%) said their firm would increase fixed annual management fees to compensate for lost revenue.** An additional 24% of SMAs stated they would introduce a separate fixed annual fee specifically for insurance procurement activities. These findings suggest a general industry preference for streamlined fee structures, either through bundling or clear segmentation, over more complex or variable models (e.g. time-based billing).

Figure 3.11: Method of Fees for Sourcing Insurance Policies



Source: AEC (2025).

3.3.2 OC ATTITUDES: CONDITIONAL SUPPORT AND DESIRE FOR FLEXIBILITY

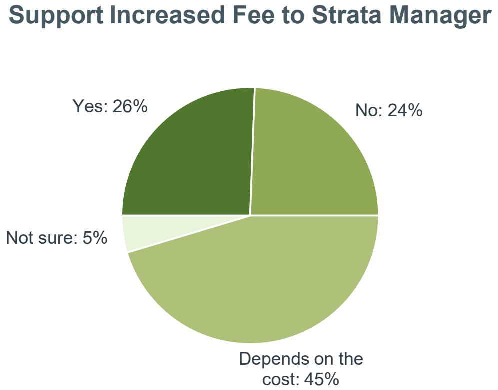
From the owners' side, the research reveals a nuanced picture of conditional acceptance, cost sensitivity, and a desire for choice and control in how services are delivered and priced.

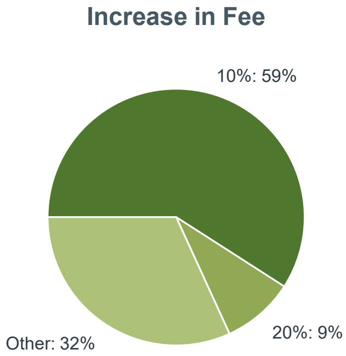
- **66% of OCs acknowledge that strata management fees will likely increase if insurance commissions are prohibited, whether through higher base fees or a separate service charge.**
- **45% of OCs said they would be open to paying increased fees, depending on the cost, highlighting price sensitivity. A further 26% expressed support regardless of cost, while 24% would not support any fee increase – revealing that while many are receptive, a meaningful minority remain resistant.**

Among those supportive of increased fees:

- **59% indicated they would be willing to pay up to 10% more for strata management services to cover insurance work in a commission-free model, with a further 9% indicating they would be willing to pay up to 20% more.**

Figure 3.12: OCs Support For Increased Fee to SMA





Source: AEC (2025).

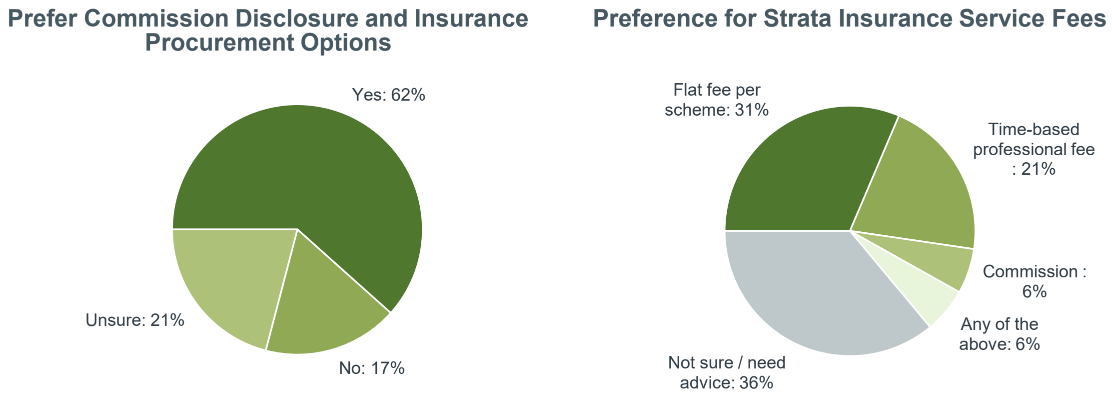
3.3.3 PREFERENCES FOR FEE MODELS

When asked about their preferred fee structure for insurance services:

- **62% of OCs expressed a preference for having choice – whether through a commission-based model, fee-for-service, or self-management.** This points to a strong appetite for choice and flexibility in how service relationships are structured.
- **31% indicated a preference for a flat fee per scheme**, suggesting growing support for simplicity and predictability in service pricing.
- **36% were unsure or said they would need advice** – a clear sign that many owners still feel underinformed and would benefit from more guidance during the transition.
- **Only 21% of OCs preferred a time-based professional fee, and just 6% said they would prefer a commission-based structure** – underscoring the limited appeal of the latter models among OCs.

These findings suggest emerging alignment between SMAs and OCs around transitioning to fixed-fee models, particularly in bundled or simplified formats. However, owners' views, unsurprisingly, remain contingent on cost, value clarity, and access to information. There is also evidence that many OCs lack confidence in navigating new pricing structures and would benefit from targeted education or comparative tools.

Figure 3.13: OCs Preference For Strata Insurance Service Fees

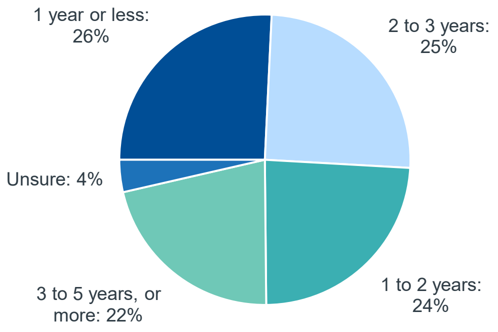


Source: AEC (2025).

3.4 TRANSITONAL PERIOD

Survey findings indicate that a clear majority of respondents (71%) anticipate needing more than one year to fully transition to a fee-based model in the event of a prohibition on insurance commissions. This underscores the scale and complexity of the structural changes required, and highlights **the importance of a phased, well-supported transition strategy to mitigate operational disruption across the sector**.

Figure 3.14: Length of Time Required for Change to be Implemented



Source: AEC (2025).

The extended adjustment period reflects time to address several interrelated challenges:

- **Adapting internal systems:** SMAs will need to modify accounting, billing, and compliance systems to accommodate new fee structures and itemised disclosures. This may involve process redesign, software updates, and staff training.
- **Restructuring revenue models:** Many firms rely heavily on insurance commission income to subsidise their operations. **Replacing this revenue with transparent service fees will require careful financial planning and realignment of business models.**
- **Re-negotiating service agreements:** Contracts with owners corporations may need to be restructured to reflect changes in fee composition, potentially requiring approval through general meetings and/or special resolutions.
- **Client education and engagement:** Perhaps most critically, **SMAs will need to clearly communicate the rationale for new fees to OCs and lot owners.** This includes explaining how fees are calculated, what services are covered, and why the shift supports greater transparency and accountability.

4. POLICY IMPACT ANALYSIS

This section assesses the likely impacts and effects of a specific policy scenario: the proposed prohibition of insurance commission-based remuneration for SMAs in NSW. The analysis compares this scenario against the base case – namely, current arrangements as defined under existing legislation (see Section 2.3) – and explores the implications that such a policy change could have on industry structure, stakeholder behaviour, and service delivery models, both directly and through unintended flow-on consequences.

Three key focus areas underpin the analysis:

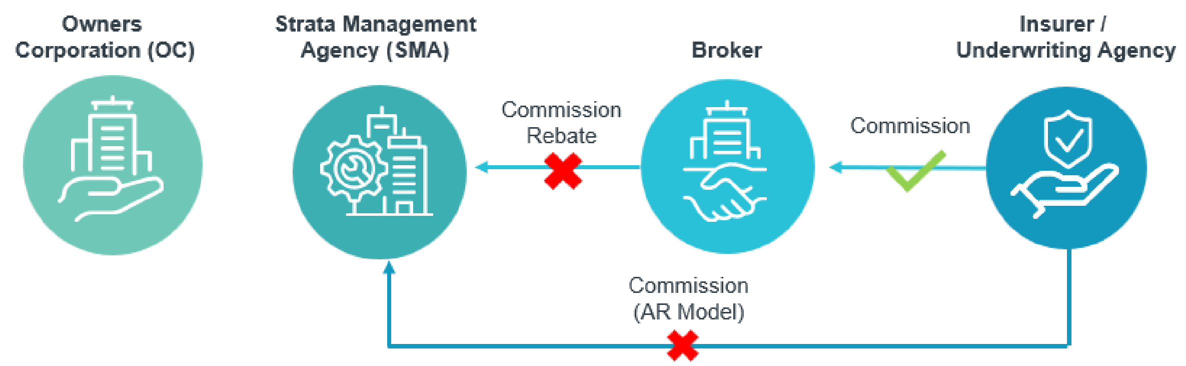
- **Impact, implications, and risks associated with the potential prohibition**, including anticipated consequences and unintended effects on OCs (including occupiers), insurers, government, brokers, and SMAs. The assessment considers how the removal of commissions may reshape financial relationships, introduce new market behaviours, or alter the incentive structures currently embedded in the strata insurance procurement process.
- **The second tranche of reforms**, which have already introduced stricter disclosure requirements to improve transparency. As these reforms form part of the base case scenario, their role in addressing market inefficiencies and potential overlap with the objectives of the commission prohibition are examined, particularly as their long-term effects remain unclear due to their recent implementation.
- **Transitional and timing considerations**, recognising that strata insurance commissions currently represent a material revenue stream for many SMAs (see Section 2.2). **The scope, scale, and complexity of implementing such a prohibition, especially against the backdrop of ongoing sector reforms, requires careful evaluation to ensure service continuity and market stability.**

4.1 IMPACTS & IMPLICATIONS OF THE POTENTIAL COMMISSION PROHIBITION

The potential prohibition of SMAs receiving commissions, if legislated, would mark a significant departure from established remuneration practices within the strata insurance market. Under current arrangements, SMAs commonly receive commissions either as rebates from brokers or directly from insurers or underwriters (see Section 2.2). It is assumed that SMAs would be precluded from receiving commissions from either source. Brokers, however, would retain commission entitlements, as their regulation falls under federal jurisdiction.

To illustrate the possible changes, the following diagram simply highlights the current and potential commission flows between stakeholders in the strata insurance supply chain and the loss of commission revenues to the SMA and retention of commissions to the broker:

Figure 4.1: Prohibited Commission Flows Under Potential Change



Source: AEC.

At its core, the policy objective of prohibiting strata manager commissions is to reduce conflicts of interest, encourage value-based insurance selection, and provide OCs with greater clarity around total insurance costs and intermediary remuneration. However, the financial and operational ramifications of this potential reform are likely to be substantial, and potentially disruptive, if not managed carefully, as outlined below.

4.1.1 REDUCTION IN THE TOTAL COST OF INSURANCE IS NOT GUARANTEED

The total cost of insurance comprises several components: the base premium, commissions (including those rebated to SMAs), broker fees, and related taxes. The potential prohibition of SMA commissions, whether received via broker rebates or directly from insurers, will disrupt current financial flows and reshape stakeholder incentives.

SMAs, particularly regional firms, often rely on commission income to cross-subsidise other strata fees, sometimes covering nearly half or more of their total revenue (SCA, 2020). Without access to this revenue stream, **SMAs are expected to shift toward fee-for-service models, raising fixed base management fees or introducing explicit charges for insurance-related work to maintain commercial viability** (AEC, 2025). If these new charges are structured as hourly rates or scheme-specific service fees, the lost commission revenue may be directly replaced – meaning that the total cost of insurance to OCs may remain unchanged, or in some cases, increase. This effect would be particularly pronounced for strata properties that require extensive management services or have high claims histories, as hourly-based service fees may lead to greater cost exposure compared to previous commission-based models.

Under the proposed scenario, brokers would retain their commissions from insurers, potentially as high as 20% of the gross base premium, which could be higher than under the current commission rebate arrangements where part of the commission is passed to SMAs. The MRF indicates that 58% of SMA respondents expect no change in total insurance costs following the possible prohibition, with the assumption that brokers will retain the full commission. Only 10% of respondents anticipate that insurance premiums will decrease.

The short-term cost implications will therefore largely hinge on how brokers respond:

- **Option 1**: Accept net base premiums (without commission), as seen in the fee-based model currently used for larger, more complex strata schemes; or
- **Option 2**: Retain the full commission and eliminate broker fees, which would increase their revenue and potentially drive up total insurance costs in the short term.

If brokers retain full commissions without meaningful fee reductions, they will experience a short-term revenue uplift – at the cost of higher premiums to OCs. However, over time, competitive forces would be expected to constrain this effect, as brokers compete and SMAs negotiate new fee structures under clearer remuneration structures.

In contrast, **a transition to net premiums and fixed-fee models have the potential to lower insurance costs**, provided supporting conditions are met:

- **Reduced tax obligations**, as stamp duty would be applied to a lower net base premium rather than a gross base premium (also reducing revenues to the state government).
- **Greater clarity on net quoting** provides clearer benchmarking, empowering OCs to negotiate better-value coverage and constrain intermediary costs, currently estimated to range between 20% and 40% of the gross base premium.
- **SMAs may be more financially indifferent to insurer selection**, aligning incentives with value-based outcomes, encouraging insurers to compete on price and coverage terms over time.

The Australian Competition and Consumer Commission (ACCC, 2020 p485) highlights that “Disclosure of commission amounts is not sufficient to deal with this conflict of interest, and there is a risk that strata managers will have little incentive to pursue lower premiums for their clients, as this will reduce their own remuneration.”

The long-term outcome will also depend on insurers’ pricing strategies. If insurers offer net base premiums to the brokers, competition may drive total insurance costs down, preventing opportunistic pricing by insurers (ACCC, 2020).

Expected Impact on Total Insurance Cost:

- **Short-Term Outlook**: It is expected that total insurance costs will increase compared to current levels in the short-term, particularly if brokers retain full commissions or insurers adjust net base premiums upward.
- **Long-Term Outlook**: In the longer term. competitive market forces are expected to stabilise pricing, with total insurance costs returning to appropriate levels or potentially declining due to savings on stamp duty. However, this will require net base premiums to be accepted as the standard to ensure tax savings are realised.

4.1.2 OTHER STRATA FEES ARE EXPECTED TO INCREASE TO COMPENSATE FOR LOST COMMISSION

Beyond insurance costs, the potential prohibition is expected to drive changes in how SMAs structure and recover operational revenue. Many SMAs, particularly small to mid-sized firms and regional firms (as identified in the MRF), heavily rely on commissions to underwrite their broader business functions. To offset the loss of this revenue, SMAs are anticipated to adjust their pricing structures. The MRF reveals that:

- **57% of SMAs plan to increase fixed base annual management fees**, and
- **24% plan to introduce a separate fixed fee for insurance sourcing**, replacing the revenue currently generated through commissions.

While this shift enhances clarity, ease of comparison and allows for clearer budgeting, it also presents challenges. In the short term, the fee levels established are likely to reflect historic commission benchmarks, but implementation complexity, contractual renegotiations, and perceived risk may lead some SMAs to initially set fees above prior commission values.

Even if insurance premiums decline in the long run, increases in strata management costs may counterbalance those savings, leading too little to no net financial gain for OCs in the early stages of reform.

However, a move towards simplifying fee arrangements may deliver long-term benefits:

- **Greater pricing visibility** allows OCs to assess value for money and negotiate directly with service providers.
- Standardised fee structures help promote healthy competition through the enabling of greater SMA comparison.
- **Labour-based pricing models**, rather than property-value-linked commissions, may incentivise efficiency and reduce cross-subsidisation across portfolios.

Over time, the market is expected to stabilise as SMAs recalibrate their offerings and OCs become more informed consumers.

Expected Impact on Other Strata Fees:

- **Short-Term Outlook**: Strata fees are expected to rise in the short term as SMAs adjust their revenue structures to compensate for lost commissions and price risk, as initial pricing challenges and concern/ risk balancing adjustments are expected in some instances to push fees higher than the commission rates previously earned.
- **Long-Term Outlook**: As market understanding improves and competitive pressures take hold, excessive fee increases are expected to be curtailed. The total cost of strata management, including insurance-related services, may ultimately be lower than in the base case, particularly for schemes that actively engage with pricing structures and service levels.

4.1.3 INCREASED COMPLIANCE & REMUNERATION ADJUSTMENT COSTS

As SMAs adapt to new revenue models, including fee-based structures, they will incur additional costs in restructuring their financial frameworks, developing pricing strategies, and justifying these changes to OCs. Even if SMAs transition to the fee-based model, which is already established for certain segments of the strata market, they will **still face material adjustment costs** related to:

- **System changes and administrative restructuring** required to implement new pricing mechanisms.
- **Determining appropriate fee levels**, **balancing management responsibilities** between themselves insurance brokers and underwriters, and **ensuring transparency while maintaining profitability**.
- **Educating OCs on the rationale behind new charges**, as the shift from indirect commission-based pricing to upfront direct fee structures will make costs more visible to strata owners.
- **Training staff and adapting to new service models**, which may take time to fully integrate, particularly for firms unfamiliar with fee-based arrangements.

This financial and operational shift comes at a time of widespread reforms across the strata industry, adding further complexity to compliance and market adjustments. **If only a short transitional period is allowed for the proposed new changes, smaller SMAs and regional SMAs are expected to struggle to absorb these changes, leading to higher costs being passed on to consumers.**

These transition demands come during a period of broader regulatory reform in the strata sector, compounding complexity for service providers. As highlighted in the MRF, **71% of respondents indicated they would require more than one year to fully adapt to an alternative revenue model** (Section 3.4). This suggests that an extended lead-in period is critical to reducing implementation risks, especially for smaller and regionally based SMAs who may face resourcing constraints.

If insufficient transition time is afforded, these pressures are likely to result in higher short-term costs being passed on to OCs, either through increased management fees or newly introduced charges for insurance procurement and related services.

Projected Impact on Compliance & Remuneration Adjustment Costs:

- **Short-Term Outlook**: Compliance and remuneration adjustment costs will rise as SMAs restructure their pricing models, absorb training expenses, and implement new systems. These costs are expected to be passed on to OCs and will increase overall strata management fees during the initial transition, with some, particularly smaller or regional SMAs anticipated to struggle with the transition.
- **Long-Term Outlook**: Over time, as SMAs adjust to and better understand the cost of administering under the new revenue structures, these costs are expected to stabilise and return to more typical levels. The long-term financial impact is unlikely to be materially different from the baseline once market dynamics settle in the longer term.

4.1.4 IMPROVED MARKET TRANSPARENCY & COMPETITION – BUT WITH INCREASED RISKS

On 3 February 2025, the NSW Government implemented a suite of reforms mandating stricter disclosure and transparency requirements for SMAs (see Section 2.3). While these reforms are widely regarded as a positive step toward improving accountability in the strata insurance market, their full impact remains uncertain due to their recent introduction.

The objectives of the second tranche of reforms significantly overlap with those of the potential commission prohibition – particularly in terms of enhancing transparency and improving OCs' ability to understand and evaluate insurance-related costs. The reforms require SMAs to disclose itemised details of commissions, broker fees, base premiums, and other intermediary charges.

The potential prohibition aims to build upon these reforms by removing commissions entirely, thereby simplifying pricing structures and reinforcing competitive dynamics. By prohibiting commission flows to SMAs, the policy intends to:

- Encourage price-based competition among SMAs
- Allow OCs to negotiate fees directly and transparently
- Improve overall consumer awareness of what strata services cost, and what is included

As reflected in the MRF, 62% of OCs expressed a preference for being able to choose between different remuneration models (i.e., commission, fee-for-service, or self-managed insurance), while 31% expressed support for a flat fee per scheme.

However, this shift is not without risk. Despite potential improvements in price competition, there are significant concerns around **unintended consequences**:

- In markets where price sensitivity among OCs is high, the introduction of higher upfront strata fees, even if revenue-neutral, could cause OCs to prioritise low-cost service providers, with less regard for service quality or long-term building maintenance.
- **This behaviour risks driving down service standards among SMAs**, as competitive pressures may lead to cost-cutting measures that compromise the quality of service and result in less favourable insurance outcomes.
- **Smaller or regionally based SMAs may be disproportionately impacted**, as they lack the resources to absorb transitional costs. If larger firms consolidate market share as a result, competition may actually decline, reducing consumer choice and flexibility over time.

These risks are amplified by the fact that many of the proposed benefits are already being addressed through the second tranche of reforms, which mandate disclosure without eliminating commission flexibility. In this context, the net benefit of the possible prohibition may be marginal, particularly if disclosure reforms are sufficient to drive more informed decision-making and fairer fee structures without compromising service quality.

Impact on Market Transparency & Competition:

- **Short-Term Outlook:** The commission prohibition may simplify fee structures and strengthen price competition. However, significant risks and unintended consequences remain, particularly if OCs prioritise lower-cost options over service quality, leading to potential price distortions and a decline in management standards, which could undermine the intended benefits
- **Long-Term Outlook:** As OCs become more knowledgeable about the SMA market, competitive pressures are expected to improve pricing efficiency and service quality in the longer term. However, if service quality deteriorates significantly in the short term, its effects may persist longer than expected, potentially limiting the long-term benefits that the reform aims to deliver.

4.1.5 HIGHER RISK OF UNDERINSURANCE AND/ OR INAPPROPRIATE COVER

One of the expected, and more significant, unintended consequences of the potential prohibition on SMAs receiving insurance commissions is the increased risk of underinsurance, or inappropriate coverage, among OCs. This risk stems from financial and behavioural shifts that are expected to occur as a result of the remuneration model transition.

According to the MRF, **42% of SMAs believe that removing commissions will negatively impact the quality of insurance cover secured on behalf of OCs**, compared with only 12% of OCs who share this concern. Among those anticipating negative impacts, the primary concerns relate to an increased administrative burden for OCs, potential for high costs, and the loss of negotiating expertise and understanding. Most of the concerns largely stem from reduced SMA involvement in the insurance procurement process and a strongly expressed desire from OCs to have insurance secured for them by an informed professional, with only 36% of OCs saying they are comfortable placing their own insurance.

These concerns are particularly relevant in a strata insurance environment marked by escalating premiums, rising excesses, and growing complexity. If total insurance costs increase following the possible prohibition, OCs may be more inclined to prioritise affordability over adequacy of cover. In such cases, they may opt for less comprehensive insurance products that, while cheaper upfront, do not align with their scheme's full risk profile and long-term needs.

Underinsurance is already a recognised as a significant issue in the strata sector, with many buildings not adequately insured for full replacement value. While OCs are legally required to maintain a minimum mandated coverage, they may choose to forgo optional policies or reduce coverage levels to limit expenses, particularly in high-cost strata schemes.

A similar dynamic would emerge if upfront strata fees rise following the commission prohibition, as where OCs become more price-sensitive, they may reassess their insurance expenditure, reduce coverage or select policies with higher excesses to offset up-front financial pressures. This shift could lead to gaps in coverage, leaving strata schemes financially vulnerable in the event of disasters or major claims.

<u>**Impact on Insurance Coverage Levels**</u>:

- **Short-Term Outlook**: There is a strong likelihood that a portion of OCs will opt for lower-cost insurance policies, that sacrifice the quality of coverage to balance rising costs and up-front financial pressures.
- **Long-Term Outlook**: If underinsurance were to be exacerbated and become even more widespread than it is currently, it would impact the broader strata insurance market, influencing insurer pricing strategies, policy availability, and risk management practices. Over time, market adjustments and further regulatory interventions may be required to address coverage gaps and ensure adequate protection for strata schemes, however, the impact from underinsurance would be significant.

4.2 IMPACTS & IMPLICATIONS ON KEY STAKEHOLDERS

The potential prohibition on SMAs receiving insurance commissions is expected to reshape the financial and operational structure of the strata insurance market. Drawing on the implications discussed in Section 4.1, this section outlines the anticipated effects of the reform on five key stakeholder groups of:

- Strata Managing Agents
- Brokers
- Insurers
- Government bodies
- Owners Corporations.

STRATA MANAGING AGENTS

SMAs are likely to face the most immediate and significant financial disruption. For many, particularly smaller and regional firms, strata insurance commissions represent a substantial share of total revenue and are often used to cross-subsidise other strata service fees. With the removal of this income stream, SMAs will be compelled to shift, fairly rapidly, toward alternative fee models to maintain viability.

According to the MRF, 57% of SMAs indicated they would increase their fixed annual management fees, while 24% plan to introduce a separate fee for insurance-related services. These structural changes will have several flow-on effects:

- Higher upfront strata fees, which may influence OC decision-making – particularly around the cost, scope, and appropriateness of insurance coverage.
- Operational restructuring costs, including revising internal pricing mechanisms, updating administrative systems, training staff, and communicating new fee arrangements to OCs.
- Increased competitive pressure, as simplification and greater clarity around service costs enables OCs to benchmark and compare SMA pricing more effectively.
- Potential market consolidation, with some smaller SMAs struggling to absorb transition costs or compete with larger firms that have greater financial and operational capacity.

BROKERS

Brokers are regulated under federal legislation, so they will retain the right to earn commissions from insurers. The commission prohibition will prohibit brokers from rebating commissions to SMAs, potentially resulting in a short-term revenue uplift for brokers – particularly if they retain full commission margins and eliminate broker fees.

According to the MRF, 58% of SMAs believe that brokers will keep the full commission without reducing total insurance costs. But over time, competitive pressures are expected to correct this behaviour, as brokers compete for SMA business and begin offering net base premium pricing or reduced commission rates to secure market share.

INSURERS

For insurers, the removal of commissions to SMAs is unlikely to materially alter premium revenue, since insurers generally treat commissions as a cost of distribution and adjust pricing accordingly. However, there is a risk of short-term margin expansion, whereby insurers may attempt to increase net base premiums following the prohibition, leveraging the absence of SMA commissions to bolster profitability.

This risk may undermine some of the policy's intended benefits. However, as with brokers, market competition is expected to curb opportunistic pricing over time, especially if OCs and SMAs begin demanding transparent net premium quotes and engage more actively in procurement decisions (ACCC, 2020).

STATE GOVERNMENT

Government revenue from stamp duties on insurance premiums is expected to decline if net base premium pricing becomes more widely adopted than currently, as stamp duty calculations would be based on a lower base premium that excludes the commission amount. Additionally, stamp duty revenues may further decrease if OCs opt for lower-cost insurance products rather than policies that provide more comprehensive coverage.

Moreover, the broader wave of strata industry reforms is increasing regulatory complexity and expanding administrative burdens, which could result in higher compliance and enforcement costs for government agencies tasked with monitoring and implementing these changes and likely an increase in adverse behaviours, conscious or inadvertent.

OWNERS CORPORATIONS

OCs stand to be the primary beneficiaries of the potential commission prohibition in the long term, assuming the market evolves toward greater clarity of pricing, cost efficiency, and value-based/ fee-for-service provision. However, several short-term risks and transitional complexities remain:

- Simplification of fee structures, allowing OCs to better assess the full cost of strata management and insurance services – curbing hidden charges and enabling clearer comparison across providers. This may also provide greater negotiating power, as simplified pricing structures empower OCs to engage directly with SMAs and brokers to secure competitive, value-based contracts.
- Potential for long-term insurance savings, particularly if net premium quoting becomes standard and brokers reduce embedded commission loads. This could lower both premium and stamp duty costs over time.
- Higher upfront strata fees in the short term, as SMAs adjust pricing to offset lost commission income and compliance burdens.
- Risk of underinsurance, as OCs facing higher upfront strata costs may opt for lower coverage levels, potentially exposing properties to financial risks in major claims events.

4.3 KEY CONSIDERATIONS FOR POLICY IMPLEMENTATION

The analysis examined in this report finds that the potential prohibition on SMAs receiving insurance commissions represents a fundamental, and potentially disruptive, shift in the financial structure of the strata insurance market. If implemented without careful design, the reform may trigger unintended consequences for service delivery, cost allocation, business/ operator viability, and stakeholder behaviour across the sector.

To better achieve the policy's intended objectives and support a smoother transition while minimising unintended market impacts, the following issues need to be considered and prioritised.

ALLOWING THE SECOND TRANCHE OF REFORMS TIME TO TAKE EFFECT

The February 2025 disclosure reforms introduced enhanced transparency requirements for SMAs, including itemised disclosure of insurance-related costs and commissions (see Section 2.3). These reforms were designed to address many of the same concerns the commission prohibition now seeks to resolve, namely, improving transparency, curbing conflicted remuneration, and empowering OCs to make better-informed decisions.

Given these overlapping objectives, it would be prudent to allow sufficient time to evaluate the effectiveness of the February reforms before proceeding with additional structural changes. Monitoring the real-world impact of disclosure measures could determine whether:

- Further regulatory intervention is necessary; or
- Market transparency objectives could be better achieved through refinement of existing measures.

LACK OF COMPREHENSIVE EMPIRICAL EVIDENCE ON MARKET-WIDE IMPACTS

Currently, there is a notable lack of comprehensive empirical research examining the effects of commission prohibitions within the strata insurance sector - or how such a prohibition would interact with other ongoing legislative reforms. In this context:

- The NSW Government should consider commissioning a detailed impact assessment, focusing on both short-term adjustment costs and long-term behavioural shifts across the sector.
- Policymakers should assess the entire strata insurance supply chain, including insurers, brokers, SMAs, and OCs, to ensure that regulatory changes result in coordinated, market-wide improvements rather than placing disproportionate burden on a single intermediary group.

NEED FOR CONSUMER EDUCATION AND MARKET PREPAREDNESS

One of the clearest findings from the MRF is the awareness gap between SMAs and OCs. While 78% of SMAs are aware of the potential prohibition, only 31% of OCs reported the same. In addition, many owners expressed uncertainty about future service fees, appropriate insurance pricing, the value of competing remuneration structures and a strong desire for professional assistance in securing insurance.

To support a smooth transition, enhanced consumer education initiatives will be essential. These could include:

- Guidance on evaluating insurance quotes, coverage options, and claims processes
- Plain-language summaries of strata management fee structures
- Tools to help OCs benchmark value for money and assess risk coverage adequacy.

Without such initiatives, there is a risk that owners will default to cost-minimisation strategies that compromise coverage quality or service value - compounding and making worse the very issues the reform seeks to address.

HEIGHTENED RISKS & POTENTIAL UNINTENDED CONSEQUENCES

Despite its potential benefits, the proposed prohibition on commissions introduces significant risks that could offset expected advantages if not managed appropriately, such as:

- **Disruptive financial restructuring for SMAs:** Particularly for smaller and regionally based firms, many of which rely heavily on commission income to subsidise other fees (SCA, 2020). The sudden removal of this revenue stream could create financial instability and operational strain.
- **Potential market exit of experienced SMAs:** Some long-standing operators may find the transition unviable, reducing the depth of expertise in the sector and potentially narrowing competition, especially outside metropolitan areas and reducing consumer choice.
- **Short-term cost increases for OCs:** As SMAs transition to alternative revenue models and adjust pricing structures, this is expected to lead to higher upfront costs to balance/ offset risk for OCs before market forces stabilise.
- **Administrative cost escalation:** New compliance obligations layered onto existing reforms may increase operational complexity and monitoring costs, much of which could ultimately be passed onto the OCs as consumers.
- **Underinsurance risks:** OCs, facing affordability concerns, may opt for lower-cost, less comprehensive insurance policies, potentially exposing strata schemes to significant financial liabilities in the event of major claims. This was echoed in the MRF results, where 42% of respondents anticipated a decline in cover quality post-prohibitions.
- **Potential decline in management quality:** Cost-conscious OCs may opt for the lowest-priced providers rather than those offering comprehensive service, undermining ongoing building maintenance and longer-term asset preservation.

EXTENDED TRANSITIONAL PERIOD REQUIRED

Given the scale of this proposed reform, a well-informed and spaced transition is essential to minimise market disruption. Considerations around this include:

- SMAs have relied on commission-based revenue for quite some time, making the shift to new remuneration models complex and financially challenging.
- The reform coincides with a broader wave of legislative changes affecting the strata industry, with multiple regulatory shifts that are still unfolding at the time of writing this report in July of 2025, adding to the complexity of implementation. As noted in the MRF, many SMAs expect recent legislative amendments to increase their compliance burden and administrative costs.
- If potential reforms are implemented, MRF findings indicate strong industry support for at least a two-year transition period, allowing SMAs to adapt systems, recalibrate pricing models, and engage clients more effectively.
- Industry stakeholders have expressed concerns about the stress and uncertainty caused by abrupt remuneration reforms, highlighting the need for clear guidance, reasonable lead times, and supportive measures.

ENHANCING INDUSTRY DATA COLLECTION & MARKET COMPARISONS

The strata industry and strata insurance sector currently lack publicly available, reliable and comprehensive empirical data on strata revenue, costs, and insurance premiums. Improving data capture and data consistency and making this data available would allow far greater information and insight and enable better industry analysis, facilitating more informed decision-making and strengthening overall market efficiency.

Enhanced data collection and disclosure would also support the development of standardised comparison tools, allowing OCs to benchmark SMA fees and broker charges more effectively. Similar to bank interest rate comparisons, these insights would empower OCs to assess market rates, boost competition, support OC's realise value and drive greater transparency across the strata insurance market.

4.4 CONCLUSION

The potential prohibition on strata insurance commissions for SMAs seeks to simplify remuneration structures, reduce conflicts of interest, and enhance market transparency – particularly for OCs. **If successfully implemented, these reforms could deliver long-term benefits in the form of clearer cost structures, improved consumer trust, and greater pricing accountability across the strata insurance supply chain.**

However, **these potential gains must be weighed against the significant short-term risks and transitional challenges** that have been identified throughout this report. Financial disruption for SMAs – particularly smaller and regionally based providers – alongside operational upheaval and uncertainty for OCs, brokers, and insurers, could create market instability if not carefully managed.

The MRF consistently highlight concerns about affordability, service quality, and awareness gaps that must be addressed to prevent unintended consequences, such as underinsurance, reduced competition, operator failure or market consolidation.

To mitigate these risks and support the reform's intended objectives, a well-planned implementation strategy is critical. **A transition period of at least two years, ideally three as supported by industry responses in the MRF**, would allow stakeholders to:

- Adapt financial models and pricing frameworks
- Update administrative systems and staff training
- Educate OCs about their options and obligations
- Monitor early impacts and recalibrate policy settings as needed.

If the proposed amendments proceed, the transition should be underpinned by detailed and sustained engagement with industry stakeholders, clear and consistent communication of policy objectives, and targeted consumer education initiatives to build capability within the OC community. With thoughtful implementation and evidence-based stewardship, the commission prohibition, if implemented, has the potential to reshape the strata insurance landscape into a more competitive and consumer-focused market.

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APPENDIX A IN-DEPTH NSW STRATA PROPERTY MARKET

This section provides an in-depth overview of the NSW strata market, including the general structure of a strata scheme, and the sector's role in housing supply and affordability in NSW.

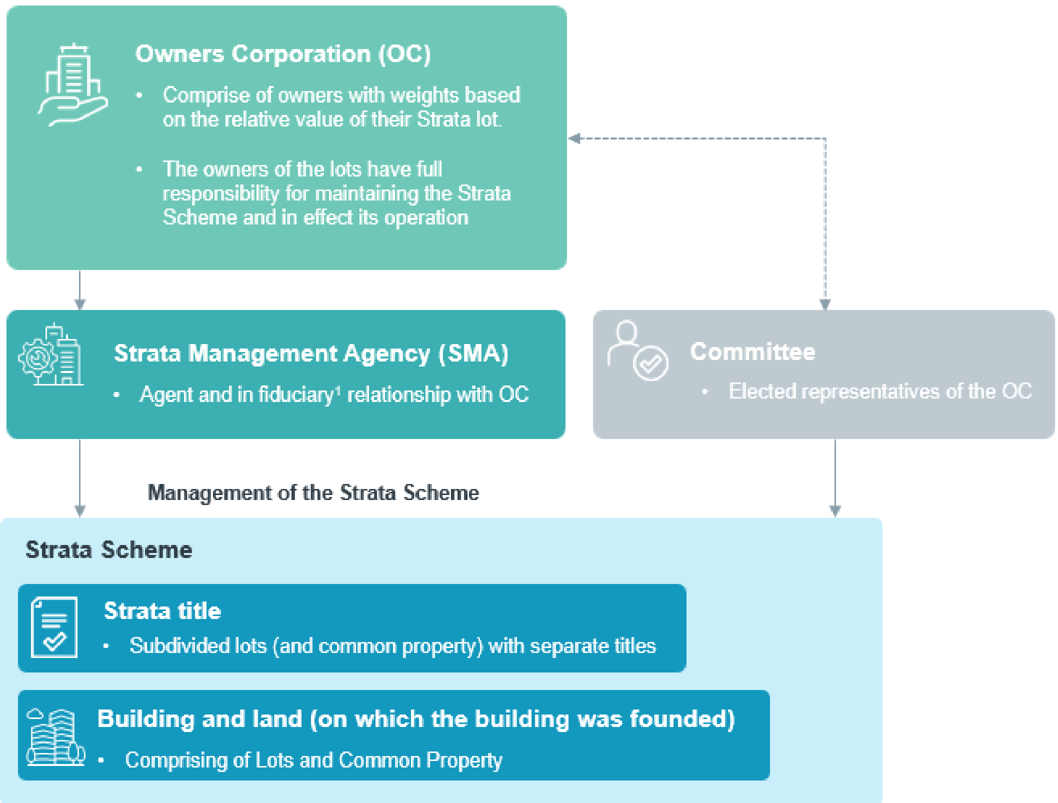
STRATA SCHEME OVERVIEW

In attached dwellings, unlike stand-alone homes, shared facilities, infrastructure and common property must be managed equitably and cost-effectively to serve the interests of all residents, both owners and tenants. This governance framework is legally structured under what is known as a Strata Scheme.

A Strata Scheme is a formal legal arrangement in which a building and the land it occupies are subdivided into lots (commonly referred to as units) and common property. Each lot is individually titled, while common property is collectively owned and maintained by all lot owners. The scheme also defines the rights and obligations of lot owners, occupiers, the OC, and those elected or appointed to oversee its management.

The control, administration, and management of a Strata Scheme are primarily the responsibility of the OC and its Strata Committee, elected at the AGM. This committee plays a crucial role in overseeing the scheme's day-to-day operations. A SMA may be engaged to handle the scheme's management, representing the interests of owners and occupiers while operating under legislative provisions. Figure A.1 shows the structure and major stakeholders in the management of a Strata Scheme.

Figure A.1: Structure and Stakeholders in a Strata Scheme



Note: 1 - A fiduciary relationship is a legal relationship of confidence and trust between two or more parties, most commonly a fiduciary or trustee and a principal or beneficiary. A fiduciary is someone who has undertaken to act for and on behalf of another in a particular matter in circumstances that give rise to a relationship of trust and confidence.
Source: AEC.

Strata schemes rely on structured financial management to ensure the maintenance, repair, and ongoing operational costs of common property and shared infrastructure are adequately funded. Property owners contribute through a levy, which supports two key funds mandated under NSW legislation:

- **Administration Fund:** This fund is used to cover day-to-day expenses of the strata scheme, including maintenance of common property, insurance procurement, and regular services such as utilities, cleaning, and landscaping.
- **Capital Works Fund:** Previously known as the sinking fund, this reserve ensures sufficient funding for major capital expenses, including building repairs, asset replacements, and long-term upgrades. Certain two-lot schemes may be exempt, as per NSW regulations.

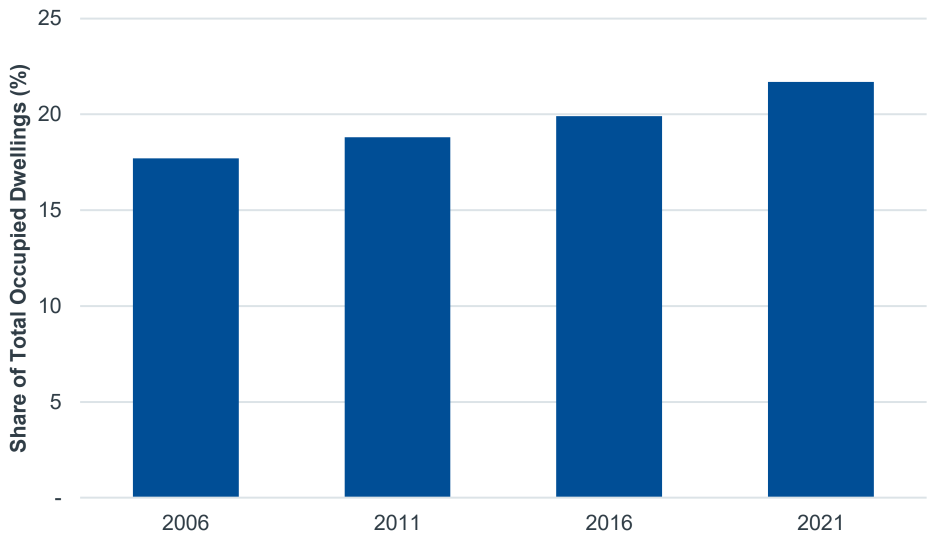
The *NSW Strata Schemes Management Act 2015*, alongside the *Strata Schemes Regulation 2016*, governs the financial and operational management of strata schemes, providing clear legal requirements to ensure effective governance, financial transparency, and regulatory compliance. These legislative provisions guide strata committees and managing agents in overseeing funding allocations, insurance arrangements, and the financial sustainability of strata schemes

GROWTH OF ATTACHED DWELLINGS & STRATA SCHEMES

The NSW strata market has seen rapid growth over the past decade, driven by strong population increases, urbanisation trends, and housing affordability pressures, all of which have contributed to the shift toward higher density living.

According to the ABS 2021 Census, apartments accounted for 21.7% of all occupied dwellings in NSW, up from 19.9% in 2016 and 18.8% in 2011, reflecting growing demand for attached dwellings over time. This figure is significantly higher than the national average of 14.2%, highlighting NSW's shift toward higher density living. The trend is most pronounced in the Sydney Metropolitan area, which holds 89.2% of the state's apartment stock, compared to just 10.8% in Regional NSW. Within Sydney, apartments make up 30.8% of all occupied dwellings, reinforcing the city's transition to high-density urban development. In contrast, Regional NSW has a much lower concentration, with apartments comprising only 6.3% of the total housing stock.

Figure A.2: Apartments as a Proportion of Total Occupied Dwellings



Source: ABS (2007; 2012; 2017; 2022), AEC.

NSW plays a dominant role in Australia's strata sector, representing 47.8% of the total apartment market nationwide. The significant increase in attached dwellings highlights the growing reliance on multi-owner properties as a core component of housing supply.

Table A.1: Number of Occupied Apartment* Dwellings by Region, 2021

Dwelling Type	Sydney Metropolitan	Regional NSW	NSW	Australia
No. of apartments	561,988	68,041	630,030	1,319,095
Total dwellings	1,824,835	1,067,882	2,892,717	9,253,248
% of Apartment Stock	30.8%	6.3%	21.7%	14.2%
% of Apartment Stock in NSW	89.2%	10.8%	100%	-
% of Apartment Stock in Australia	42.6%	5.1%	47.8%	100%

*Apartments includes flats, units and apartments.
Source: ABS (2022), AEC.

The surge in attached dwellings has driven a proportional increase in the number of strata schemes across NSW. A City Futures Research Centre UNSW study found that Australia has 368,234 strata and community title schemes, with NSW accounting for 91,346, representing 25% of the national market.

To accurately measure the size of the strata market, it is useful to consider the number of lots rather than just the number of schemes. Strata schemes can vary widely in size, from small townhouse developments to high-density apartment complexes with hundreds of individual lots. Across Australia, there were over 3.1 million strata and community title lots, with 1,073,277 (or 34%) located in NSW (UNSW, 2025). There is an average of 11.7 lots per development scheme in NSW, compared to 8.7 nationally.

Table A.2: Number of Development Schemes and Lots Registered NSW Vs Australia 2024

Strata Market	New South Wales	Australia
Number of Development Schemes	91,346	368,234
% of National Market	25%	-
Number of Lots Registered	1,073,277	3,191,244
% of market	34%	-
Average Lots Per Development Scheme	11.7	8.7
Strata Residents (%)	17%*	15%*

Source: UNSW (2025).

Between 2014 and 2024, both development schemes and registered lots saw substantial growth in NSW. The number of strata schemes increased by 37%, while the number of registered lots surged by 81%, reflecting the trend toward larger and higher-density developments.

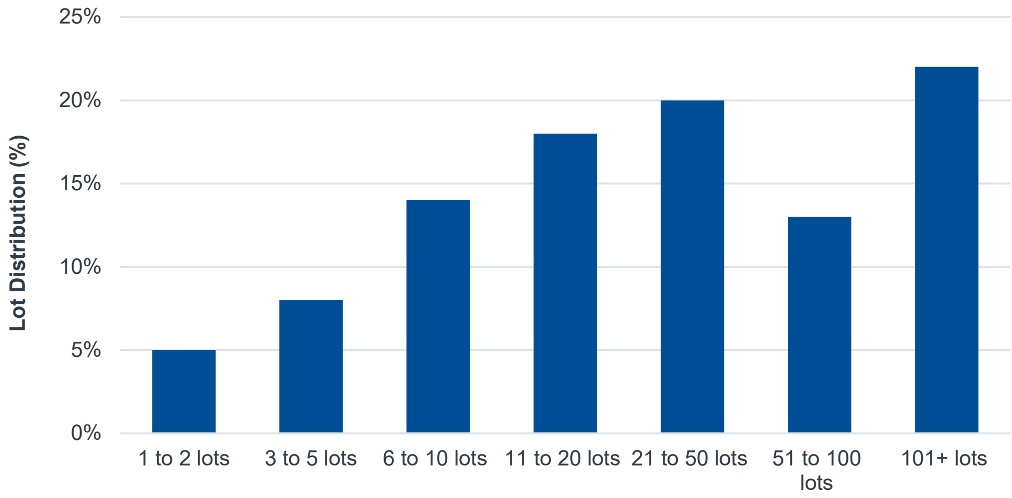
Table A.3: Number of Strata Development Schemes & Lots Registered 2014 Vs 2024

Strata Market	2014	2024	%Growth
Number of Development Schemes			
New South Wales	66,821	91,346	37%
Australia	219,887	368,234	67%
Number of Lots Registered			
New South Wales	594,389	1,073,277	81%
Australia	1,489,048	3,191,244	114%

Source: UNSW (2025).

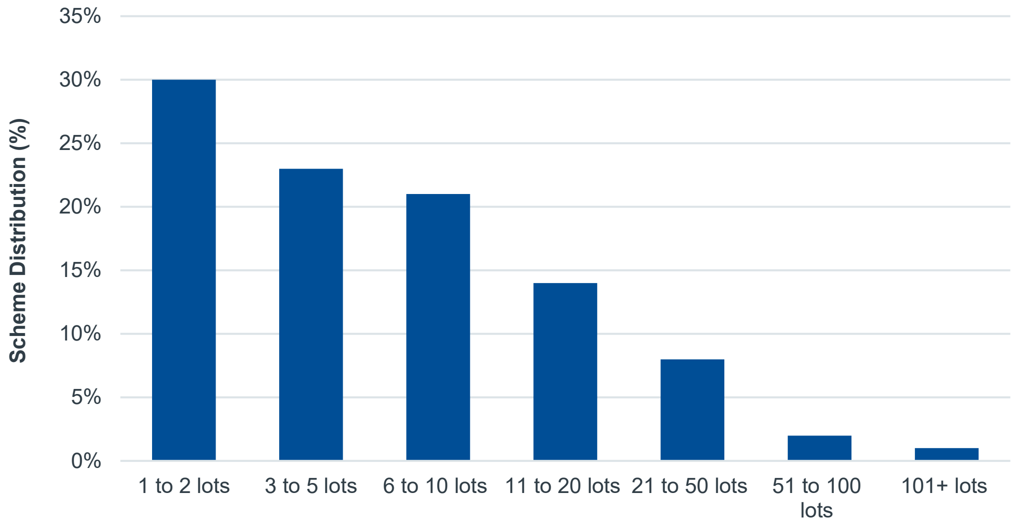
While over half (53%) of strata schemes in NSW consist of five lots or fewer, these smaller developments make up only 13% of the total strata lots statewide. In contrast, large-scale strata schemes with more than 51 lots account for 35% of all strata lots, despite representing just 3% of the total number of schemes. The expansion of larger strata developments presents new challenges for SMAs. As these schemes increase in size, their financial oversight, regulatory compliance, governance frameworks, and insurance management become more complex, necessitating advanced management strategies to ensure efficient administration.

Figure A.3: Lot Distribution, Strata & Community Schemes, New South Wales (n=1,073,277)



Source: UNSW (2025).

Figure A.4: Scheme Distribution & Community Schemes, New South Wales (n=91,342)



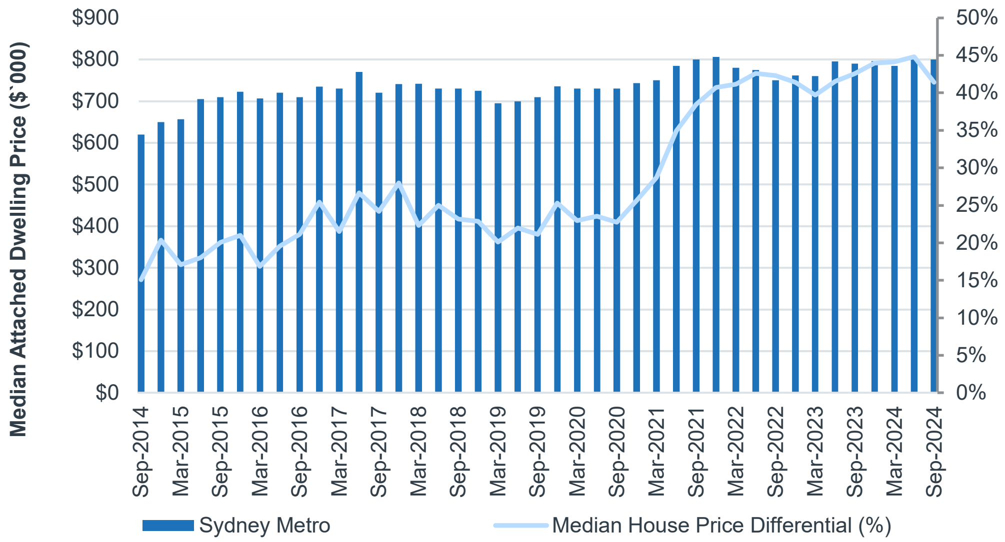
Source: UNSW (2025).

HOUSING AFFORDABILITY & STRATA'S ROLE IN THE MARKET

One of the primary drivers behind the growth of attached dwellings, and consequently strata properties, has been their role in addressing housing affordability challenges. While median property prices have increased, strata developments continue to offer a more affordable alternative to detached houses, making them an important part of a divers and healthy housing market for buyers facing financial constraints.

Between 2014 and 2024, the median price of attached dwellings in Sydney rose from $600,000 to $800,000, yet remained 40% lower than detached housing prices. This price differential has positioned strata properties as a more viable solution for homebuyers, who are unable to access standalone homes. However, this affordability gap is less pronounced in Regional NSW, where the price differential is a more modest 14%, underscoring differences in housing demand and development patterns across urban and regional markets.

Figure A.5: Sydney Metro Median Attached Dwelling Price Vs Detached House to Attached Dwelling Median Price Differential (%)



Source: Pricefinder Sales Database, 2024

Despite strata properties being more affordable to purchase, the ongoing costs associated with ownership (including mortgage repayments, strata levies, which include insurance fees) have become an increasing concern for affordability:

- Mortgage Stress: In Sydney Metro, 25% of apartment households have mortgage repayments exceeding 30% of their household income, compared to 19% in Regional NSW. These proportions are higher than those for detached housing, highlighting the financial strain many strata owners experience.
- Rental Stress: Renters in strata properties are also affected, with 46% of apartment households in Regional NSW spending more than 30% of their income on rent, compared to 37% of detached house renters. Given the sharp rise in rental costs across Sydney Metro, it is likely that these figures have deteriorated further since the 2021 Census.

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OUTCOME DRIVEN

1300 799 343 reception@aecgroupltd.com

Brisbane
Level 5, 131 Leichhardt Street
Spring Hill QLD 4000
Australia

Townsville
233 Flinders Street East
Townsville QLD 4810
Australia

Sydney
Level 14, 25 Bligh Street,
Sydney NSW 2000
Australia

Bangkok
158 Soi Sukhumvit 54
Prakhanong, Bangkok
Thailand 10260

Shanghai
1609, 1st Building, Kangjian
Shangwu Square
1228 Zhennan Road, Putuo,
Shanghai
China 200333