



**STRATA COMMUNITY  
INSURANCE**



## **Commonly Asked Questions from your Owners Committee**

The Strength of **Experience.**



## Q1. What damage does insurance cover and what does the body corporate need to fund?

**A.** Owners become members of a body corporate when they buy into a Strata or Community title scheme.

Owners have a share in both the assets and liabilities of the entity and a legal responsibility for maintenance, repair and overall management of the common property.

Insurance generally covers the costs of damage to the building and common property that occurs suddenly and accidentally. However, coverage is subject to exclusions. For example, if damage arises due to lack of maintenance, then it may fall to the body corporate to pick up the costs through levies.

Ongoing failure to adequately maintain property can lead to defects that may not be covered under an insurance policy, leaving owners with large, unforeseen exposures in the event of a claim.

## Q2. Why has my insurance premium gone up?

**A.** Asking why the insurance premium has gone up in price is one of the most common questions from lot owners. No one likes a price hike but understanding the factors contributing to insurance premium increases may help to ease the sting. We discuss the key drivers below.

### **Claims Costs:**

The number and the average cost of claims exceeding expected levels. Factors contributing to this include:

- **Climate change** – increasing the number of events and their severity.
- **Poor building quality** – arising from poor building practices and product quality, inherent defects, and inadequate maintenance practices.
- **Costs of building material and labour** – construction cost inflation.
- **Low levels of deductibles.**
- **Maintenance issues being submitted as claims.**



### **Reinsurance Costs:**

These have increased dramatically due to poor underwriting returns leading to a reduction of capital into the sector.

### **Government Taxes:**

Taxes, duties and levies are applied as a fixed percentage – meaning that when base insurance premium increases, so too does the dollar amount attributable to taxes, duties and levies.

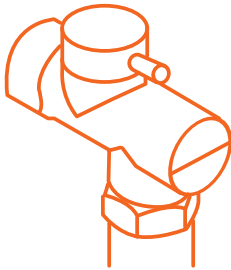
### **Fee Increases:**

It's important to remember that the insurance premium is only a part of the total cost of insurance. Apart from government taxes, duties and levies, if an insured is using a third party intermediary they may be charged additional fees. While these fees form part of the total cost of insurance, quite often they are rolled up into an overall cost figure and variations are difficult to assess. Greater transparency on all components of insurance cost will improve understanding of the key drivers of variations from year to year.



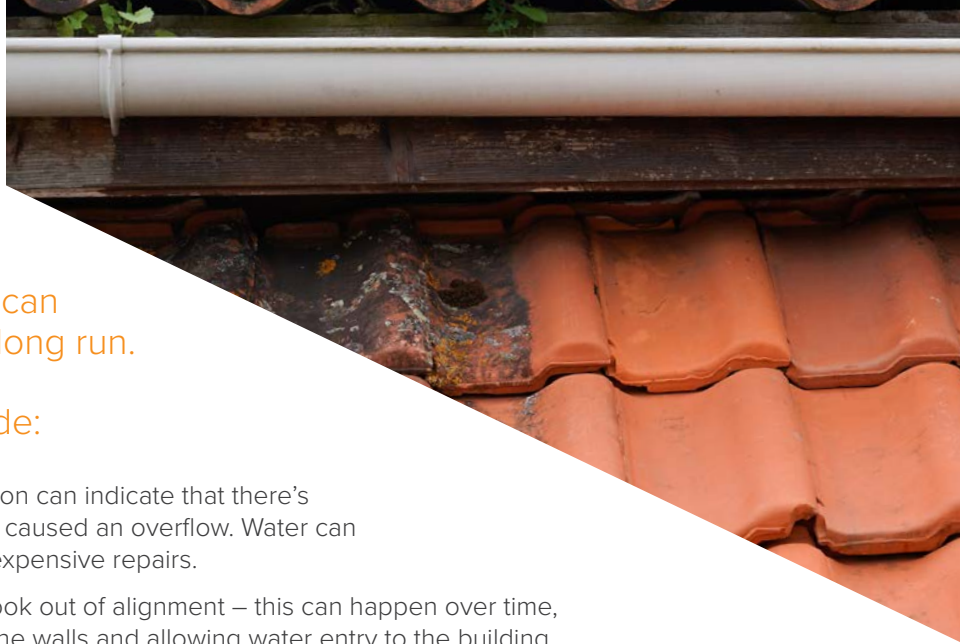
### Q3. Are there measures the body corporate can implement to help manage the cost of insurance?

**A. Regular Maintenance:** Strata buildings that do not undertake regular maintenance measures can put their buildings at risk of higher premiums. It is a statutory requirement that all strata titled buildings must maintain and repair common property, hence the importance of regular maintenance activities. Failure to manage regular maintenance can lead to recurring issues within the building.



If a body corporate can demonstrate regular maintenance and upkeep of the common property to insurers, they are more likely to attract market competitive premiums - whereas those properties with poorer building maintenance practices may see less competitive premiums.

**Repair and remediation of long term issues:** Water damage is perhaps the most common issue affecting strata buildings from a claims perspective, and in many cases can be avoided or minimised through implementing cost-effective and common-sense measures. For example, flexi hoses have a finite lifespan, and water damage arising from a burst or leaking flexi hose can have a devastating effect on an apartment, particularly if not identified and remediated quickly. Simple measures such as installation of stop flow valves can assist, by stopping the flow of water due to a sudden event when a pipe or flexi hose bursts.



Maintaining roofs and gutters can save a body corporate in the long run. Typical signs of deterioration to roofs and gutters can include:

**Discolouration on the walls:** Discolouration can indicate that there's a leak somewhere or a blockage that has caused an overflow. Water can find its way into the building, resulting in expensive repairs.

**Gutters out of alignment:** If the gutters look out of alignment – this can happen over time, with gutters starting to come away from the walls and allowing water entry to the building during rain events.

**Metal roofing panels that look out of place with other roofing:** Metal roofing should be straight with no raised or distorted panels, misaligned panels can cause leaks to the apartments below.

**Debris and dirt in the guttering:** A build-up of sediment in your gutters is usually caused by broken down material from trees, as well as flying dust. Clean out the gutters and make sure there are no possible drain-blocking materials near your downpipes.

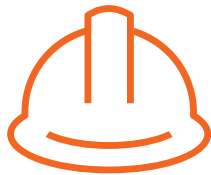
Appoint a licensed builder and/or specialist trade to provide ongoing maintenance to your strata building, and advice on how best to ensure your building is well maintained in accordance with your statutory requirements.



## Q4. Will lodging a claim affect our insurance excess in the future?

**A.** Excesses in strata insurance have been rising over the past few years to reduce the rapid rate of premium increases. However, they are still comparatively lower than household and motor insurance policies.

The major factor driving excess increases is repeat claims. Buildings that are making repeated claims will directly impact the level of an excess. Where a building has been experiencing a large number of claims, premiums may rise. Additionally, where those claims are from common issues such as water damage the excess may also rise. This may be mitigated by implementing proactive measures such as installing stop flow valves. Each building is viewed on a case-by-case basis and measures like this may actually reduce the premium and/or excess if the underlying issues in the building have been addressed. If, however, issues are left unaddressed, this may result in increased insurance costs and reduced availability of providers willing to consider offering insurance.



## Q5. What compulsory insurance must the body corporate have?

**A.** Every jurisdiction has different levels of regulation regarding strata insurance. The short answer is that for every strata title building in Australia there is a legal requirement to have certain mandatory insurance covers in place, and the option to select additional non-mandatory covers.

Policies offered by Strata Community Insurance include eleven sections of cover, please see the table for mandatory covers across each state and territory.





**This table identifies which sections of cover in Strata Community Insurance policies include mandatory covers.**

Opt = Optional Cover Y = Mandatory Cover\*

SCI Policy Section	NSW	VIC	QLD	SA	WA	ACT	TAS	NT
<b>1</b> Insured Property**	Y	Y	Y	Y	Y	Y	Y	Y
<b>2</b> Liability to others***	Y	Y	Y	Y	Y	Y	Y	Y
<b>3</b> Voluntary Workers	Y	Opt	Opt	Opt	Opt	Opt	Opt	Opt
<b>4</b> Workers compensation <sup>^</sup>	Y <sup>^</sup>	Y <sup>^</sup>	Y <sup>^</sup>	Y <sup>^</sup>	Y <sup>^</sup>	Y <sup>^</sup>	Y <sup>^</sup>	Y <sup>^</sup>
<b>5</b> Fidelity guarantee	Opt	Opt	Opt	Y	Opt	Opt	Opt	Opt
<b>6</b> <sup>^</sup> Office Bearers Liability	Opt	Opt	Opt	Opt	Opt	Opt	Opt	Opt
<b>7</b> Machinery breakdown	Opt	Opt	Opt	Opt	Opt	Opt	Opt	Opt
<b>8</b> Catastrophe insurance	Opt	Opt	Opt	Opt	Opt	Opt	Opt	Opt
<b>9</b> Government audit costs and legal expenses	Opt	Opt	Opt	Opt	Opt	Opt	Opt	Opt
<b>10</b> Lot Owners' Fixtures and Improvements	Opt	Opt	Opt	Opt	Opt	Opt	Opt	Opt
<b>11</b> Loss of Lot market value	Opt	Opt	Opt	Opt	Opt	Opt	Opt	Opt

\* Policy Sections including mandatory cover may also contain automatic inclusions and Optional Covers that go beyond minimum legislative requirements, and may allow insureds to opt-in or opt-out for certain covers.

<sup>^</sup> Optional – but should be considered essential for volunteers on a committee.

\*\* Although precise terminology differs between jurisdictions, essentially property cover must include the costs necessary to replace, repair or rebuild the property to a condition substantially the same as, but not better or more extensive than, its condition when new. The level of cover must also take into consideration the payment of expenses necessarily and reasonably incurred in the removal of debris and the remuneration of architects and other professional services required, being incidental to the replacement, repair or rebuilding of the damaged property.

<sup>^</sup> Workers Compensation is required in all jurisdictions where 'workers' are 'employed' by the body corporate. The definition of 'workers' and 'employed' may vary between jurisdictions.

\*\*\* The minimum level of liability cover required varies across jurisdictions, as follows:

NSW \$20 million	NT \$10 million	SA \$10 million	VIC \$20 million
ACT \$10 million	QLD \$10 million	TAS \$10 million	WA \$10 million



## Q6. The difference between Building and Contents Insurance. What is covered and whose responsibility is it?



**A.** Legislation in each jurisdiction defines what needs to be insured by the body corporate, as opposed to what is the responsibility of individual lot owners. Lot owners should refer to their specific legislation for definitive information, however in general terms:

### Parts of building required to be covered by a damage policy include:

- 1) owners' improvements and owners' fixtures **forming part of the building**,
- 2) a building consisting entirely of common property,
- 3) anything prescribed within regulations as forming part of a building for the purposes of insurance.

### Parts of building not required to be covered by a damage policy include:

- 1) **fixtures removable** by a tenant / occupant at the expiration of a tenancy / occupancy,
- 2) owners' improvements and fixtures comprising paint, wallpaper and temporary wall, floor and ceiling coverings (NSW only),
- 3) anything prescribed by the regulations as not forming part of a building for the purposes of insurance.

## Insured Property

In general terms, cover for Insured Property includes Buildings and Common Area Contents, and excludes Lot owners' Contents. The items that fall within each of these categories are defined in the policy wording.

Lot Owners' Contents include items within lots, include chattels e.g. dishwashers, fridges. Personal effects and other non-fixed items and personal effects will also need a contents policy as these items are not included in strata insurance.

It is important for lot owners to consider which items, including 'fixtures' or 'improvements', technically form part of the building and which do not. This may vary considerably between jurisdictions, as well as between residential and commercial strata. By way of example, all of the following items may need to be covered under insurance taken out by individual lot owners, as opposed to the body corporate:

- Internal painting in NSW & the ACT
- Air conditioners servicing individual lots in Qld
- Commercial fitouts (including fixed walls not contained within the strata plans)
- A dividing wall installed to alter a 2-bedroom unit to a 3-bedroom unit

Other insurances that owners may wish to consider include:

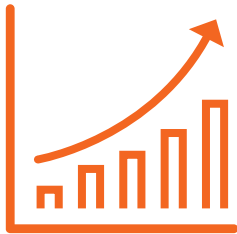
- landlord cover for tenant damage and rental default;
- business insurance and business continuance insurance for commercial occupancies; and
- liability for lot owners (which is often packaged with contents cover).

## Q7. How does indexing work at renewal time in line with valuations?

**A.** Unless the body corporate has an up-to-date valuation, extra care must be taken to ensure that any movement in the price of building materials and labour costs is taken into account at renewal and throughout the period of insurance. In addition, costs for removal of debris and any incidental professional costs such as council fees, remuneration of architects, lawyers and other persons need to be included in the reinstatement and replacement value.

Without indexation or an up-to-date valuation, a body corporate runs the risk of underinsuring. This means that, at claim time, full reinstatement and replacement expenses may not be met, possibly leaving all owners out of pocket and liable for any shortfall. In addition, if the body corporate is underinsured, they will not have met their statutory obligations to insure for full reinstatement and replacement value.

The Strata Community Insurance indexation solution is to offset the exposure for the body corporate and help ensure there are adequate funds to meet actual reinstatement and replacement requirements at the time of rebuilding.



Strata Community Insurance does this by applying indexation by reference to the Cordell Housing Index Price (CHIP) and Cordell Commercial Index Price (CCIP). The CHIP/CCIP tracks movement in building material and labour costs.

Using this approach, certain sums insured under your insurance policy are automatically increased in the event that the insured property suffers loss or damage, and on renewal of the policy. Other than a current up-to-date valuation, Strata Community Insurance believes this is the most reliable method of ensuring insurance is sufficient to cover claims.

Renewal terms are issued at the indexed value to help the body corporate ensure they meet their statutory obligations in renewing for full reinstatement and replacement value.

## Indexation Example

<b>Building value = (sum insured at policy inception)</b>	<b>\$2,000,000</b>
<b>Increase after:</b>	
<b>30 days</b>	<b>\$4,932</b>
<b>180 days</b>	<b>\$29,589</b>
<b>210 days</b>	<b>\$34,521</b>
<b>300 days</b>	<b>\$49,315</b>
<b>365 days</b>	<b>\$60,000</b>
<i>* Based on CHIP/CCIP applied at an average 3% annually</i>	
<b>Building value including indexation at the end of policy period =</b>	<b>\$2,060,000</b>

Indexation based on movement in building material and labour costs will contribute to the increased cost of a premium each time a building is due for renewal. To ensure a building is insured for full reinstatement costs it is recommended that the body corporate obtain a reinstatement valuation.

Go to <https://stratacommunityinsure.com.au/strata-toolkit/>  
to download this as an e-brochure, plus many more information  
brochures available for download



## STRATA COMMUNITY INSURANCE

 [stratacommunityinsure.com.au](https://stratacommunityinsure.com.au)

**T** 1300 SCINSURE (1300 724 678)  
**E** [myenquiry@scinsure.com.au](mailto:myenquiry@scinsure.com.au)  
**A** Level 10, 124 Walker Street  
North Sydney NSW 2060  
**P** PO Box 631 North Sydney NSW 2059

Strata Community Insurance Agencies Pty Ltd  
ABN 72 165 914 009, AFSL 457787.

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