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# Risk Management

## Series: Effective Governance for Executive Bodies of Strata Communities

### Part 6 of 12: Risk Management

Risk management is the process of managing an organisations potential exposure to liabilities or loss. Risk management reduces and manages risk, compliance (our next topic) seeks to eliminate or prevent risk.

In the context of an owners corporation, some risks are obvious. This list starts with the less obvious but equally important.

**1. Fraud:** in most states and territories there is no requirement to be licensed to be an owners corporation manager and to handle in some cases millions of dollars in administrative and maintenance fund fees. Without licensing, the risk of fraud or embezzlement is high. Owners Corporations should take care to entrust their funds to a reputable strata manager and one that is insured not only for professional negligence but also fraud.

**2. Investment risks:** where is the strata communities savings invested? This is the most topical of risks facing strata communities' today. Not all banks are equal anymore and a strata community must select its investment accounts wisely not just based on the best interest rate available.

**3. Breach of statutory duty to repair and maintain common property:** this is the most under rated risk. Strata communities are under strict statutory duties to repair and maintain common property. The legislation does not say that common property should be fixed when it suits or when the strata community can afford it – the law is absolute, if it is broken, then it has to be fixed. Fines and imprisonment can flow to individuals who fail to observe this duty. Directors and officers insurance may be available to mitigate this risk.

**4. Reputational risk:** most prudent purchasers will conduct a search of the records of a strata community before making a purchase. This is the way to find out if the community is riddled with troublemakers and an unhappy governing body. This is every bit as important as a pest inspection.

More important really because a pest controller can rid your building of pests but a strata manager can't rid your building of a trouble maker. It is important to remember that everything written is available for inspection by the purchasing public. Be careful what is written and manage trouble makers well so they do not inflame minor disputes and dominate your strata community.



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**5. Property damage and destruction:** this form of risk is well understood and insurance is commonplace. However, the question is whether the insurance held is enough.

Replacement valuations should be taken out every three years for large and small buildings. Some legislation only makes this compulsory for large buildings which defies logic. In the case of total or partial destruction the risk of personal loss is the same no matter if you live in a high rise or a duplex. Each year between valuations the insured sum should be increased. Don't fall into the trap of doing this based on the prevailing consumer price index movements. The consumer price index measures the increase in the cost of goods not building materials. In some parts of Australia last year the price of building materials rose 17% yet hardly any strata communities would have used this as the basis for the increase in their insured sum.

**6. Public liability risk:** this covers the owners corporation for slips and trips. The minimum amount of insurance is set by law and this makes assessing this risk and doing something about it easy. This is the risk that everyone focuses on when thinking risk management in a strata property yet it is the easiest to cover. More attention needs to be given to the other risk set out above which may not be covered by insurance.

**Next Week: Legal Compliance**



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