NIBA
National Insurance Brokers Association.

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Quality of Advice Review

Financial System Division

Treasury

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NIBA Submission: Quality of Advice Review Issues Paper

1. Introduction

The National Insurance Brokers Association **(NIBA)** welcomes the opportunity to provide feedback on the Quality of Advice Review issues paper.

The provision of financial advice in Australia (in all its forms) is subject to a regulatory framework unlike any in comparable international markets. This regulation has increased significantly since the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry at considerable cost to advisers and their clients. While the reforms were introduced to combat very real issues identified within some areas of financial services, poor regulatory design, and the extension of these reforms to sectors beyond the original intent of Commissioner Hayne's recommendations has resulted in an overly burdensome regulatory framework that discourages innovative new market entrants and restricts the availability of tailored general insurance advice while providing little benefit to consumers.

NIBA supports the reviews' premise that high-quality advice can and should be both accessible and affordable to all who require it. As more and more Australians experience climate-related events and insurers'' appetite for risk decreases, it is imperative that consumers have access to quality general insurance advice. In NIBA's view, the most effective way to achieve this outcome is to create an environment that encourages consumers to access advice and pay for it in the manner most appropriate for them. Importantly the regulatory framework must encourage advisers to provide personal advice, rather than leave the industry as has been seen in the wealth management and financial planning sectors.

Additionally, the review <u>must</u> recognise the differences between the advice provided in relation to wealth management, superannuation, retirement planning and life insurance, and general insurance advice provided by a licensed general insurance broker.

We know community expectations continue to evolve, to meet those expectations and raise standards of professionalism, the industry has responded by introducing a new Code of Practice that sets standards above the Law, which further increases the transparency and disclosure of broker remuneration and conflicts of interest.

1.1 About NIBA

NIBA is the peak representative body for the intermediated general insurance industry. NIBA represents approximately 450 member firms and 15,000 individual brokers including large, multinational insurance brokers, Australian broker networks, and small to medium-sized businesses located in cities and regional areas right around Australia.

NIBA aims to promote the role of insurance brokers and the role they play in supporting and advising their clients on risk and insurance matters. NIBA provides this knowledge and expertise to governments and government agencies to promote understanding of the operation of general insurance markets.

NIBA member firms all hold an Australian financial services licence **(AFSL)**, issued by the Australian Securities and Investments Commission **(ASIC)** under the *Corporations Act 2001 (Cth)*, which enables them to deal in and/or advise on risk insurance products.

Insurance brokers represent the interests of the purchasers of insurance, the policyholders, and not those of insurance companies. Consequently, comments made by NIBA and its members are made on behalf of its members and the public that purchases insurance, not on behalf of insurance companies.

1.2 About the General Insurance Market

The Australian insurance market is comprised of three core components: general insurance, life insurance, and health insurance. The broking of general insurance is estimated to account for 47.5% of all intermediated insurance industry revenue, with life insurance and health insurance, and other services accounting for 42% and 10.5% respectively.[1]

General insurers underwrite insurance policies to cover individuals and businesses' financial losses associated with property, casualty, liability, and other risks. The general insurance market can be broadly divided into two segments:

- **Commercial general insurance**, which includes policies for fire and industrial special risks (ISR), public liability, professional indemnity, workers compensation, product liability, commercial motor insurance, etc.
- **Domestic general insurance**, which is predominantly made up of household (home and contents), travel and private motor vehicle insurance.

In the year to December 2021, the general insurance industry wrote $57.5 billion in gross written premium (GWP), including reinsurance.[2] Approximately 55 % of this was placed through an intermediary.[3] As of 30 December 2021, there were 1,665 intermediary licensees able to conduct general insurance business, although it is important to note that the number of individual brokers far exceeds this number due to the fact that many brokers act as authorised representatives of a licenced insurance broker.[4]

[1] (Deloitte Access Economics 2020)
[2] (Australian Prudential Regulation Authority 2022)
[3] (Australian Prudential Regulation Authority 2022)
[4] *Ibid*

1.3 About Insurance Broking

Unlike an insurance agent, who works exclusively for one or more general insurance companies, general insurance brokers are professional risk advisers who work on behalf of their clients to protect their assets and businesses.

Insurance brokers work with their clients to –

- **Understand, assess, and manage their risks;** While many business owners are experts at what they do, they are most likely not experts in risk assessment or risk management, especially when it comes to understanding and assessing their own risks. This is partly due to a well-established principle of social psychology known as *optimistic bias*. Insurance Brokers have the expertise to identify risks that are present, including any uninsured exposures, and recommend pro-active risk management measures, of which insurance policies often play a key role.
- **Develop appropriate risk-transfer and risk financing strategies;** Brokers are able to recommend products that are specifically catered to a client's risk needs. In some cases, brokers may seek to arrange alternative risk-transfer strategies, especially where capacity in the traditional insurance market is limited.
- **Seek cover from insurance markets that meet the above needs and strategies in a cost-effective manner;** Insurance markets are incredibly complex. Insurance brokers have the knowledge and experience to navigate these markets and understand the often-significant impact of seemingly minor differences in policy wordings. Unlike the direct market, where consumers only have access to standard 'off-the-shelf' products, brokers can negotiate changes to policy wordings, exclusions, and pricing to better meet the needs of their clients. Brokers can place risks into the Australian insurance market – either with insurers or via underwriting agencies, or if appropriate cover cannot be sourced from within the domestic market, brokers are able to place risks with overseas markets. Specific legislative provisions operate when insurance is placed with an unauthorised foreign insurer.
- **Act as the client's advocate during a claim;** Claims can be one of the most stressful periods in a client's insurance journey. During a claim brokers act as advocates for their clients, helping them to navigate the claims process by providing technical expertise to achieve a more positive outcome for their clients.
- **Assist with renewing insurance and recommend changes;** where appropriate, brokers will continually review their clients' coverage to ensure it remains suitable based on any changes to their client's circumstances and/or the broader general insurance industry. At renewal, brokers are able to source alternative quotes from the market to ensure competitive terms are maintained.

In performing these duties, insurance brokers act as agents of their clients and have statutory, common law and professional obligations to act in the best interests of their clients at all times. At times, brokers may act on behalf of an insurer when providing certain services. When this occurs, brokers have a duty to communicate this to their clients.

2. General issues

Use of the term 'financial adviser'

NIBA notes that throughout the issues paper, the Review makes reference to "financial advisers", but it is not clear from the context whether the paper is referring to the concept in a general sense i.e., anyone who provides financial advice or a ***"financial adviser"*** as defined in the Corporations Act[5].

Most NIBA members that provide personal advice to retail clients only do so in relation to general insurance products and thus are not able to refer to themselves as "*financial advisers*" under the Corporations Act as they are not "***relevant providers***" as per the definition in s910A.[6]

The legislative obligations that apply to "relevant providers" (e.g., financial planners) who provide advice on "relevant financial products" are different from those that apply to individuals who provide personal advice in relation to general insurance products e.g., general insurance brokers.

In relation to the provision of such advice, the issues arising in advice relating to general insurance products can differ from those concerning life risk insurance, investments, and superannuation. The Corporations Act acknowledges this by creating a clear distinction between investment, superannuation and risk products and the subsequent obligations that arise for each[7]. This difference should be carefully considered when referring to or considering the Royal Commission's recommendations as support for a proposition relevant to all providers of financial advice.

3. Quality Financial Advice

3.1 What are the characteristics of quality advice for providers of advice?

General background

Under the *Corporations Act*, there are two types of advice that insurance brokers can provide to their clients- general advice and personal advice. In some cases, both may be

[5] S923c of the Corporations Act restricts the use of the terms ***financial adviser*** and ***financial planner*** to ***relevant providers*** giving advice in relation to ***relevant financial products***.

[6] S910A *Corporations Act 2001.* A person is a ***relevant provider*** if the person is an individual; and is a financial services licensee, an authorised representative of a financial services licensee, an employee or director of a financial services licensee, or an employee or director of a related body corporate of a financial services licensee and is authorised to provide personal advice to retail clients, as the licensee or on behalf of the licensee, in relation to ***relevant financial products***. For the purposes of the Act a ***relevant financial product*** means financial products other than basic banking products, general insurance products, consumer credit insurance or a combination of any of those products

[7] See for example s763A-C (financial products) and s761G (retail client definition) of the *Corporations Act*.

provided over the course of a broker's interaction with their client. While quality personal advice and quality general advice may share some similar characteristics, such as providers of advice holding suitable qualifications relevant to the type of advice provided, others will differ based on the type of advice being provided.

NIBA notes that neither personal advice nor general advice distinguishes between those who act on behalf of the client when providing services and those who act on behalf of product issuers. This has an impact on the level of risk to the client. For example, an insurer providing personal advice on their own products compared to an insurance broker providing advice on behalf of the client, not the product issuer.

The insurance needs of individuals can and do vary, from the straightforward to the exceedingly complex, depending on their individual needs, objectives and financial situation. While consumers are often grouped together based on a shared set of characteristics and assumed objectives for the purposes of sales and marketing by insurers, no one generic insurance product will meet their needs (*See Case Study 1*). This is why access to quality personal advice is so important.

Case Study 1: Differentiation of client circumstances in a defined market segment.

Four consumers of similar age have each purchased a new apartment in the same building in the inner-city suburb of Alexandria. As a condition of their home loans, each consumer is required to hold appropriate home building insurance confirming their lender as the interested party. All four owners decide to take out a comprehensive home and contents insurance policy.

- The owners of **apartment 1** intend to live in the apartment whilst also renting out the 2nd bedroom as short-term holiday accommodation through Airbnb.
- The owner of **apartment 2** works at an art gallery and has amassed a considerable collection of fine arts
- The owner of **apartment 3** is in a long-distance relationship and intends to split their time between their apartment in Sydney and their partner's home in London.
- The owner of **apartment 4** works 3 days a week and runs a small but popular cake-baking business during their days off.

In each of the examples above, a typical off-the-shelf home and contents insurance product would be unlikely to meet the needs of the owners and may not provide cover in the event of a claim. To ensure they are matched with a home and contents insurance product that meets their individual needs and responds in the event of a claim, each owner would require advice from a general insurance broker.

Personal Advice

Personal advice is advice that takes into account one or more relevant aspects of the consumer's personal circumstances, such as their financial objectives, situation and needs, or is given in circumstances where a reasonable person would expect that their individual circumstances have been taken into account.[8]

In the context of the provision of personal advice in relation to general insurance products, there can be varying types of personal advice provided depending upon the subject matter and the agreed scope of the advice that is being provided. For example;

- High-level advice on the appropriateness of a class of products (general insurance v discretionary funds) or type of product (comprehensive motor insurance v third-party property damage– but not whether a particular product is appropriate or not).
- Advice on whether a particular product (e.g. X insurer's comprehensive motor insurance) is suitable for the client's needs, which might in turn be limited to:
    - a particular aspect of the product only and not the product more broadly;
    - the appropriateness of the product for the customer more broadly;
- A more holistic combination of the above (e.g. what insurance do I need to cover my business risks) which can involve consideration of:
    - classes of products needed for the business risks; and
    - kinds of products in the relevant class needed for the business risks; and
    - once agreed, the appropriateness of particular products or aspects of products within that class and kind).

When broken down to its most basic objective quality personal advice, whether linked to a financial product or not, provides clients with sufficient information (relevant to their personal circumstances, needs and objectives) to enable them to make informed financial decisions.

In a general insurance context this is done by providing the client with an appropriate recommendation that will enable them to decide how to most appropriately manage the relevant identified risk(s) having considered their relevant circumstances and the subject matter and scope of advice sought.

In NIBA's view, to provide quality personal advice requires (beyond meeting the law):

- clear identification, communication, and agreement before provision of the advice of:
    - the subject matter and scope of the advice (including limitations);
    - the benefits to be received regarding the advice or where a decision is made by the client regarding the advice; and

[8] (Australian Securities and Investments Commission 2019)

  - who the person providing the advice is acting on behalf of (e.g. on behalf of the client or the product issuer) and other matters material to the client's decision on whether or not to proceed with the advice, e.g. clawback provisions.

- relevant to the above, an investigation and clear identification of the client's relevant needs, objectives and financial situation (including in particular, any intended benefits sought by the client);
- clear communication of the recommendations and opinions given and options available to the client as a result of the above investigation, which are reasonable and appropriate for the client having regard to their relevant personal circumstances and the subject matter and scope of the advice sought; and
- clear communication of the potential impact if the client chooses to disregard the recommendation and provides alternative instructions.

NIBA notes that many, including ASIC, refer to quality advice as having to meet the needs of the client. The reality of insurance is that a product may not meet all client needs due to a variety of reasons, including policy exclusions, budgetary limitations or market availability. Recommending a general insurance product can involve advice on the most appropriate product for the customer, which may not meet all needs but is the most appropriate having regard to the overall consideration of the client's needs, objectives, and financial situation.

General advice

'General advice' is financial product advice that is prepared without considering a consumer's personal circumstances such as their objectives, financial situation and needs nor would a reasonable person perceive it to be tailored to the consumer's personal circumstances.[9]

Like personal advice, general advice may involve a recommendation or opinion on;

- a class of product;
- a type of product;
- a particular product, or an aspect and or benefit of a particular product;
- statistics or other data relevant to types of people who typically purchase a product; or
- a combination of the above.

Unlike personal advice, the recommendation and or opinion is based on general factors not specific to the client, with the client ultimately responsible for determining whether the product is suitable for them, having regard for their own needs, objectives and financial situation.

In NIBA's view quality general advice can be considered to have been given if a reasonable person receiving the advice would understand upfront:

[9] (Australian Securities and Investment Commission 2021)

- who the person providing the advice is acting on behalf of (e.g. on behalf of the client or the product issuer etc.);
- the subject matter and scope of the general advice provided (including limitations);
- that the information does not consider their personal needs, objectives or financial situation and as a result may not be suitable for them and their circumstances;
- they are responsible for determining whether the product meets their needs, objectives and financial situation and should seek personal advice if unable to do so themselves; and
- what benefits the person providing the advice will receive in exchange for the provision of the advice or if a product is sold as a result of the advice and other matters, material to the client's decision on whether or not to proceed with the advice.

3.2 What are the characteristics of quality advice for consumers?

Personal advice

While research around what characteristics clients consider indicative of quality advice has largely focused on financial advisors as defined in the Corporations Act, broader studies around what clients look for when choosing a general insurance broker, may provide some insight into what characteristics general insurance broking clients perceive as indications of quality advice.

When asked about what they look for consumers have indicated they look for the following characteristics/elements;

- thorough investigation of the client's needs.
- ability to access a broad range of products not just those from their own institution
- Ease of comprehension of advice
- Transparency of fees
- Cost and affordability of advice
- Suitable experience and qualifications of adviser

Importantly, as consumers become more price-sensitive, quality advice must also include clear disclosure of any restrictions which may lead to adverse outcomes should the consumer elect to make decisions based on price, for example, if a client elects to forgo flood cover as part of their home and contents insurance, or a small business customer elects not to include cover for any tools they regularly transport in their work vehicle when taking out a motor vehicle policy.

General Advice

See NIBA's response to 3.1 above

3.3 Have previous regulatory changes improved the quality of advice (for example the best interests duty and the safe harbour?

NIBA notes that changes made to the Corporations Act to improve the quality of advice have primarily been implemented in response to issues identified in the financial investment and life risk sectors– not general insurance.

The early relief from the Statement of Advice obligations for general insurance products (other than consumer credit **(CCI)** and sickness and accident insurance) reduced compliance burdens regarding documentation obligations but had little impact on the quality of advice being provided.

Future of Financial Advice **(FOFA)** reforms such as the Best Interest duty and conflicted remuneration changes that applied to retail clients provided with personal advice effectively replicated insurance broker's existing obligations under the law.

Other quality of advice reforms such as the introduction of a register of relevant providers, the FASEA Code of Ethics, reportable situation notifications to clients and the introduction of the 'fit and proper person test' have only been applied to *relevant providers* which excludes general insurance brokers.

In relation to the provision of general advice, members have not identified any changes of relevance.

3.4 What are the factors the Review should consider in deciding whether a measure has increased the quality of advice?

When deciding whether a measure has improved the quality of advice, the Review should have regard to what quality advice looks like relevant to each financial advice sector (wealth management, life risk, general insurance risk etc).

NIBA notes that the quality advice may differ based on the type of advice being provided and the Review should not seek to measure reforms against a generic one-size-fits-all definition of quality advice that may not be relevant to each sector.

In NIBA's view the Review should consider the following factors when determining whether a measure has increased the quality of advice:

- has the reform helped align consumer and adviser interests;
- has the reform helped to increase education levels;
- has the reform improved the way information is communicated to consumers; and
- has the reform increased transparency of the industry or simply created more confusion.

When considering these factors, the Review may wish to look at:

- ASIC, AFCA, Court and Code body statistics regarding complaints involving general insurance brokers;
- education and continuing professional development rate across the industry; and
- the availability and cost of professional indemnity insurance to the relevant adviser industry– high cost or lack of availability may indicate that measures have not been effective.

4. Affordable Financial Advice

4.1 What is the average cost of providing comprehensive advice to a new client?

Due to the varied nature of general insurance advice, it is not possible for NIBA to provide the average cost of providing comprehensive personal advice to a new client. Comprehensive personal general insurance advice takes a holistic approach to the risk needs of clients. As seen in case study 1, small changes in a client's circumstances can result in 4 very different types of advice being provided. The cost of providing this advice varies significantly based on a number of factors including:

- The nature of the client, for example:
    - are they a retail or wholesale client (typically wholesale clients require more complex risk solutions and general insurance products than retail clients);
    - are they an individual or small business; and
    - if they are a business, what industry do they operate in?
- the type of product(s) the advice relates to; and
- the agreed services to be provided by the broker.

These factors can vary significantly even when advice is provided on the same type of product. Furthermore, the perceived simplicity of the risk the advice pertains to often does not correlate to the factors considered in providing the advice. For example, when providing advice on a home and contents policy a broker will consider:

- The location of the property - NIBA members have indicated that the limited capacity and appetite for risk in the Northern Australia market has increased the complexity of obtaining insurance.
- Contents- Does the home contain artwork, jewellery, music equipment or supplies and machinery for a small home-based business? Is a valuation report required for any contents?
- Materials- Was the property built with asbestos containing materials or aluminium composite panels? Does an asbestos or fire safety report need to be completed?
- Whether or not there is suitable access to the property for fire and emergency services vehicles.

3.3 What are the cost drivers of providing financial advice?

The main cost drivers of providing financial advice are:

- operational cost i.e., facilities, staff etc;
- training costs of employees and representatives to ensure staff are equipped with the relevant technical knowledge and skills to provide professional, quality advice;
- licensing and professional services fees;
- audit costs;
- internal and external IT systems;
- professional indemnity insurance premiums; and
- Compliance regime to comply with AFSL and regulatory requirements.

In addition to the cost drivers mentioned above, members also highlighted the significant opportunity cost as a result of having to divert resources from market innovation and product development projects to implement regulatory reforms.

4.3 Which elements of meeting the regulatory requirements contribute most to costs?

NIBA notes that the 'one size fits all' approach to financial services legislation enshrined in Chapter 7 of the Corporations Act has resulted in regulatory requirements that are over-prescriptive and unnecessarily opaque. This has significantly increased regulatory compliance costs for general insurance broker firms, which are ultimately passed on to consumers.

NIBA members have indicated that the elements of meeting regulatory requirements that contribute the most to costs are:

- AFSL and compliance audits;
- professional indemnity insurance; and
- building and modifying systems to address the constantly changing regulatory framework.

NIBA members also indicated that the complexity of these regulatory requirements requires significant investment in technical resources- mainly legal and compliance, to help businesses understand both the changes required to existing systems and processes and the risks to consumers and the business if these changes are implemented properly.

4.4 Have previous reforms by Government been implemented in a cost-effective way?

NIBA does not believe that previous reforms, as they relate to general insurance, have been implemented in a cost-effective way. Many of the reforms, such as those discussed above, were implemented in response to issues identified in other financial advice sectors such as financial investment and life risk, with little regard for the impact these reforms may have on other areas.

While this 'one-size-fits-all' approach allowed the reforms to be implemented quickly in response to public concerns directed at the offending industries, no cost-benefit analysis or impact assessment was conducted before extending these reforms to industries that were not the subject of concerns.

In NIBA's experience, this has ultimately led to reforms being developed and implemented that conflicted with existing insurance legislation, repeated obligations and required amendments, carve-outs and exclusions after the fact to negate unexpected adverse impacts on these sectors.

For example, the introduction of anti-hawking obligations was originally intended to prevent the kind of predatory sales tactics that were highlighted as part of the financial services Royal Commission. However, the obligations actually restricted a general insurance brokers ability to discuss their clients own risk needs.

Risk management is undeniably a structural feature of Australia's financial services regulatory framework. In other words, risk assessment should be strategically used by law makers and regulators when framing and applying the regulatory framework to achieve its public policy objectives including the avoidance or reduction of consumer harm as well as promoting consumer benefits and economic and market efficiency.

Therefore, any analysis of the sufficiency of current legislation and regulation or the need for any change should (in NIBA's view):

- identify and categorise the relevant risks;
- analyse and assess each risk to determine the level of threat posed;
- evaluate each risk to ascertain which are the most severe and unacceptable compared to those that pose little risk; and
- consider the range of regulatory tools to mitigate unacceptable risks; including those currently in place

4.5 Could financial technology (fintech) reduce the cost of providing advice?

Investment in Financial technology, or insurtech as it is referred to in the general insurance industry, has reached record levels, with more than US$15.8 billion invested worldwide in 2021.[10]

Insurtech has the potential to reduce the cost of providing advice through increased efficiencies in data and information gathering, exchange and distribution, and the automation of currently manual processes especially those involving compliance and reporting.

The adoption of insurtech also comes with an increased exposure to cyber risks and requires strengthen cyber-security measures to ensure the client data is protected in line with the Privacy Act and ASIC cyber resiliency requirements.

In terms of the digital provision of advice, most commonly referred to as robo-advice, there are significant challenges in recreating the complex series of steps and processes a broker would normally undertake when providing personal advice to their client. Ultimately the

[10] (Gallagher Re 2022)

information produced by a digital advice platform would still need to be assessed by a qualified, licensed general insurance broker who would then make the recommendation to the client (See section 6 for further discussion of digital advice).

5. Accessible Financial Advice

5.1 How should we measure demand for financial advice?

Measuring demand for advice in the general insurance space is difficult. While most consumers understand the need for general insurance, they often do not appreciate the risks associated with purchasing general insurance products without obtaining advice, for example consumers may inadvertently purchase a product that excludes cover for their needs or does not provide enough cover to return them to their pre-claim position.

Many consumers are also not aware that the products provided by a broker are different to those available in the direct market and that they can access a more suitable product often at a more competitive premium through an insurance broker.

The use of general advice strategies by direct insurers and the lack of understanding by consumers as to the differences between general advice and personal advice has contributed to this perception shift, as has low consumer financial literacy levels.

Typically, those in the SME and large business space will have a higher demand for personal advice services given the complexity of products. Even so, retail client type products are in reality also complex, as can be seen in any review and comparison of insurer Product Disclosure Statements **(PDS)** and Target Market Determinations **(TMD)**.

NIBA is not aware of any surveys of data sources that track demand for risk advisory services and the lack of publicly available data from within the industry would make any such attempts to measure demand difficult[11].

While NIBA recognises that demand for services and need for services are different concepts, complaint data from the Australian Financial Complaints Authority **(AFCA)**, ASIC and Code monitoring bodies such as the Insurance Brokers Code Compliance Committee **(IBCCC)** and the General Insurance Code Governance Committee **(CGC)** as it relates to direct insurer business may be useful when measuring demand as a high level of complaints may indicate a need for personal advisory services irrespective of consumer perception.

5.2 In what circumstances do people need financial advice but might not be seeking it?

Consumers are often not aware that they need advice because they can access insurance products directly and believe that these products adequately address their needs.

[11] ASIC data on the number of advisers within a given sector may indicate an increase or decrease in demand, however as previously stated the number of individual brokers far exceeds ASICs' figure due to the fact that many brokers act as authorised representatives of a licensed insurance broker. Similarly, APRA only publishes data on the total amount of premium placed by general insurance intermediaries not the number of individual policies, meaning this figure may fluctuate significantly as a result of market conditions and other economic pressures.

The relative ease of which consumers can access insurance products through the direct market creates the false assumption that insurance products are straight-forward and encourages a DIY approach to risk management. In reality, this could not be further from the truth as even generic products provided by direct insurers are complex and often do not respond to an insured event in the way a client would expect. Risk advice from an insurance broker is often seen by consumers as a requirement only for businesses with large, complex insurance needs.

5.3 What are the barriers to people who need or want financial advice accessing it?

While technology has made it easier for consumers to access information on risk management and risk advice there are still a number of barriers that prevent consumers from accessing quality risk advice. These include:

- poor financial literacy outside of basic banking products leading to difficulties engaging with the market, e.g., due to the complexity of products, length and content of disclosure documents etc;
- a lack of product availability in some geographical areas;
- the perceived cost of advice;
- lack of awareness/understanding of risk advisory services; and
- lack of trust or poor perception of advisers driven by the politicisation of and attention to ongoing reform in financial services.

5.4 How could advice be more accessible?

To address the above NIBA proposes the following:

- amending financial literacy programs to include understanding of insurance products and not just household budgeting. These programs should be made freely available to adults who may lack skills and/or confidence in these areas;
- simplification of regulatory requirements to reduce the complexity of advice and encourage greater engagement with the market;
- subsidisation of personal advice for consumers especially those who may require additional assistance to manage their insurance needs (e.g., vulnerable consumer groups, those who live in areas that face increased risk from weather events etc.); and
- increasing the number of general insurance brokers by reviewing pathways and incentives for entry in addition to reducing the barriers to entry such as costs for applying and maintaining an AFSL and other associated costs e.g., professional indemnity insurance, software licensing etc.

5.5 Are there circumstances in which advice or certain types of advice could be provided other than by a financial adviser and, if so, what?

NIBA assumes that references to “financial adviser” here and any subsequent references elsewhere in the issues paper refers to all persons providing financial product advice and not just those permitted to refer to themselves as financial advisers under s923C of the

Corporations Act i.e., *relevant providers* giving advice in relation to *relevant financial products* which does not include general insurance brokers.

Insurance Brokers are the only intermediary acting in the client's best interest. In NIBA's view, it would not be appropriate for personal risk advice to be provided by someone other than a qualified, licensed general insurance broker. This is regardless of whether the personal advice provided is more comprehensive or limited in scope. NIBA believes that the high standards required of brokers should apply to any person providing personal advice (as applicable to the subject matter and scope of that personal advice). Any reduction to these standards threatens the quality of personal advice and risks significant financial impacts to clients and the broader community if a failure occurs.

5.6 Could financial advisers and consumers benefit from advisers using fintech solutions to assist with compliance and the preparation of advice?

See previous comments regarding Fintech.

6. Types of Advice

General and Personal Advice

6.1 Is there a practical difference between financial advice and financial product advice and should they be treated in the same way by the regulatory framework?

NIBA notes that the commentary on this issue in the issues paper does not cover general insurance and principally appears to discuss the issue as it relates to financial advisers as defined by the Corporations Act for whom the issue is of more relevance.

In relation to general insurance broking, NIBA does not believe there is a practical difference between financial advice and financial product advice as general insurance broking involves providing advice relating to a client's risks and the products to mitigate the risk.

General insurance brokers typically provide personal advice on:

- general insurance products- which is regulated as *financial product advice* under s763A of the Corporations Act;
- claims in relation to such products – NIBA notes that a current carve out exists for claims handling services provided by general insurance brokers who provides personal advice – this carve out would need to be retained;
- other product options for risk management by clients beyond insurance e.g., discretionary schemes – also regulated as "miscellaneous facilities for the management of financial risk" under the Corporation Act

Insurance brokers may also provide personal advice on self-insurance arrangements and risk mitigation measures within the business itself. This advice is not currently caught by the definition of financial product advice.

Discussion and consideration of the potential impact will need to take place if non-financial product linked advice services are proposed to be caught by the current financial product advice regulatory framework.

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6.2 What types of financial advice should be regulated and to what extent?

Due to the complex and technical nature of the products and the impacts to consumers if poor advice is acted upon, NIBA strongly believes that all forms of risk advice should be regulated regardless of whether it is provided under a personal advice or general advice model.

Both general advice and personal advice models present several dangers to clients if not properly regulated. While insurance is usually purchased to protect a clients most valuable assets, in the case of business insurance (including small business) it is also purchased to protect the broader community, i.e., in the form of liability insurance. In these cases, it is not just the client who can be negatively impacted by poor advice.

In regard to the extent of the regulation of different types of advice, NIBA believes that all advice should be regulated to the extent that it provides adequate protection to consumers. Regulation should be subjected to a thorough cost-benefit analysis prior to being introduced, or in the case of existing regulations, when reviewed. Regulatory compliance can add considerable costs to brokers' businesses with many qualified professional advisers in other financial advice sectors (such as financial planning) leaving the industry due to rising compliance costs. NIBA does not see this outcome as being optimal for either consumers or brokers.

6.3 Should there be different categories of financial advice and financial product advice and if so for what purpose?

In NIBA's view, the current distinction between personal advice and general advice remains valid. This distinction should apply regardless of the type of personal advice being provided (see section 3.2 for more information on types of personal advice provided in a general insurance context).

NIBA does not consider narrowing the scope of personal advice to be in the best interest of consumers as it would erode important consumer protections. The dilution of standards for more limited forms of advice may lead to a rise in significant risks for the consumer if the advice is of poor quality.

6.4 How should the different categories of advice be labelled?

In NIBA's view the reference to 'advice' within the term 'general advice' is potentially misleading and may lead consumers to mistakenly believe the advice they are receiving has taken their personal circumstances into consideration. This view is supported by findings from a number of inquiries into financial advice[12] as well as industry submissions to ASIC.

The term 'general advice' should be amended to better reflect the nature of the advice being provided. We note that the previous *draft Corporations Amendment (Financial Advice) Bill 2014 (Cth)* and the Financial Services Council proposed moving to a label of 'general information' rather than 'general advice' NIBA supports this proposal. The term 'personal advice' is well understood by consumers [13] and in NIBA's view should remain.

[12] (Australian Securities and Investments Commission 2019)
[13] Ibid

While NIBA acknowledges that other factors may also mistakenly lead consumers to believe that they are receiving personal advice (i.e., the circumstances in which the advice is provided)[14] renaming general advice to 'general information' will more accurately communicate this important distinction to consumers.

6.5 Should advice provided to groups of consumers who share some common circumstances or characteristics of the cohort (such as targeted advertising) be regulated differently from advice provided only to an individual?

In NIBA's view advice provided to a group of consumers who share similar characteristics is effectively general advice. As previously discussed in section 3, while consumers are often grouped together based on a shared set of characteristics and assumed objectives for the purposes of sales and marketing by insurers, the needs of the individuals within this cohort can vary significantly. General insurance products are complex and technical. These characteristics do not change regardless of whether the products are recommended to an individual or a group of individuals.

Regulatory differentiation should be based on the type of advice provided (personal advice/general advice) rather than whether the advice is provided to a group of consumers or an individual so as to allow consumers to choose what level of advice they would like to receive.

Promoting by way of regulatory reform, any advice based on assumptions made about a cohort that share common characteristics creates a potential risk whereby members of this cohort purchase unsuitable products based on this generic advice, believing that their circumstances have been taken into consideration. This type of advice would also increase the risk of vulnerable clients not being provided the support the require to effectively engage with the general insurance market.

Limited Scope Advice

6.6 Do you think that limited scope advice can be valuable for consumers?

The realities of financial advice are such that all personal advice is limited in some respect[15]. The law currently permits general insurance brokers to limit the subject matter and scope of advice and associated enquiries required in that context, subject to certain qualifications that protect consumers from unfair limitations prompted by a broker.

Ultimately the steps required to provide quality personal advice, whether limited or not, are the same and should remain so to protect vulnerable consumers.

Limited advice can be valuable to consumers but there are risks that arise when consumers are not made aware of the impact of the limited personal advice on their circumstances. For example, if a client is not made aware that the advice only takes into consideration some of their objectives and needs, or the broker does not disclose which of these have been considered in the provision of their advice. As such limited scope advice can be dangerous for consumers, especially those who either lack financial literacy skills or do not understand

[14] (Australian Securities and Investments Commission 2021)
[15] (Australian Securities and Investments Commission 2016, p.25)

how the needs and objectives which weren't considered could impact the suitability of the product.

Reasonable and clear disclosure of the nature of any limitation and impact on the consumer is in NIBA's view critically important, especially where the advice provider is also the issuer of a general insurance product or someone acting on their behalf.

NIBA notes ASIC proposed differentiation of types of personal advice and believes this proposal may have merit, however further discussion is required on where these distinctions should be drawn, as the examples considered by ASIC in their proposal related to investment products and did not consider general insurance issues. See section 3.1 for examples of the types of personal advice that can arise in the general insurance context.

6.7 What legislative changes are necessary to facilitate the delivery of limited scope advice?

If a separate type of limited scope personal advice is to be introduced, the trigger for the relevant class needs to be appropriate for all industries. As previously discussed, different types of personal advice are provided in the general insurance context some of which are already limited in scope. Consideration would need to be given as to how this type of advice would interact with these types of personal advice.

Additionally, limited scope advice should be accompanied by a warning for consumers explaining the relevance of the limitations of the advice as it applies to them. This is more important where the personal advice provider is the issuer of a product or someone acting on their behalf and not an insurance broker who has a duty to act in the best interests of their client.

6.8 Other than uncertainty about legal obligations, are there other factors that might encourage financial advisers to provide comprehensive advice rather than limited scope advice?

NIBA believes that the steps required to provide quality personal advice whether limited or not are the same and should remain so to protect vulnerable consumers and ensure there is an even playing field. Promoting limited type advice can reduce the comprehensive type offerings.

Digital Advice

6.9 Do you agree that digital advice can make financial advice more accessible and affordable?

There is no doubt, that technology can play a major role in the education, provision of information and at times the implementation of advice. However, NIBA has a number of concerns regarding the provision of digital advice, which are discussed in section 4.7.

In particular NIBA is not convinced that a digital advice model would be able to deliver the same client outcomes as a general insurance broker. This is because the role of a general insurance broker extends beyond providing advice on general insurance products. In addition to providing advice. general insurance brokers also provide support and assistance to their clients at claims time, with many brokerages having dedicated claims advocacy and support resources. These services would not be able to be replicated by a digital advice platform, ultimately leaving consumers worse off. (See section 8.1 and Appendix A for more information on the role and value of brokers during a claim)

NIBA notes that while robo-advisors are used in the wealth management sector, they are mostly used for managing investments in an existing digital platform rather than providing personalised, complex risk advice based on a consumer's personal circumstances.

Many of the platforms use limited consumer information to place consumers in pre-determined cohorts. The platforms then recommend products based on the assumed characteristics of these cohorts. As previously discussed, this practice is not suitable for general insurance broking.

6.10 Are there any types of advice that might be better suited to digital advice than other types of advice, for example limited scope advice about specific topics?

There may be an opportunity for the provision of digital advice in relation to very limited scope personal advice type scenarios (subject to the platform's ability to meet personal advice regulatory requirements) however, NIBA is unsure whether the limited range of advice the platform would be able to provide in this scenario would be of any benefit to consumers.

In NIBA's view, digital advice platforms would be most suited to the provision of general advice where the consumer's personal circumstances do not have to be taken into consideration.

6.11 Are the risks for consumers different when they receive digital advice and when they receive it from a financial adviser?

The new Insurance Brokers Code of Practice **(IBCOP)** requires brokers to take steps to identify and support vulnerable clients. NIBA is concerned that digital advice platforms may not be suitable to identify and support vulnerable clients who need access to general insurance advice.

Insurance brokers are able to tailor both the information they provide and the language they use when providing that information to the client, to better assist clients in understanding the advice provided. NIBA notes that the new IBCOP includes requirements for Subscribers to take steps to ensure that the client has understood the advice being provided. It is not clear to NIBA if a digital advice platform would be able to do the same, potentially resulting in a lack of comprehension by digital advice clients. This would be especially detrimental where the advice provided meets some of the client's needs but not all.

As noted above, digital platforms would not be able to provide claims advocacy to clients, meaning digital advice clients would still need to engage an insurance broker if they required claims advocacy. As the broker would not have received a commission from the insurer at placement of the policy, a fee would likely be charged to the client for claims advocacy services.

6.12 Should different forms of advice be regulated differently, e.g., advice provided by a digital advice tool from advice provided by a financial adviser?

NIBA believes that financial regulation should remain technology-agnostic so as to not create an uneven playing field between digital advice products and traditional advice delivery or otherwise impact consumer outcomes.

These regulations and consumer protections are coded into digital advice platforms and products during development and ensure that consumers receive the same standards of advice and protections regardless of which advice delivery method they choose to engage with. This regulatory framework is important to ensure that digital advice platforms and products do not result in poor client outcomes in the absence of human intervention.

NIBA notes that Subscribers to the IBCOP are required to disclose remuneration (including commissions) or other benefits they will or expect to receive as a result of providing the services covered by the IBCOP to all individual and small business[16] clients regardless of the type of advice being provided. Due to the risks associated with financial product providers also providing advice, digital advice platforms should be required to disclose any commercial relationships between the platform and financial product providers as well as whether the product providers are required to pay a shelf-space fee for their products to be considered by the platform.

6.13 Are you concerned that the quality of advice might be compromised by digital advice?

See NIBA's comments above.

Additionally, risk advice is an incredibly complex industry and often requires prioritising a consumer's goals and objectives and making nuanced strategy alterations to deliver the best outcome for clients. NIBA does not believe that digital advice platforms in their current state would be able to replicate these decisions, many of which are based on many years of professional experience, and education, as well as have the ability to explain how the risks and benefits of these alterations could potentially impact the client.

6.14 Are any changes to the regulatory framework necessary to facilitate digital advice?

See NIBA's above comments on the regulation of digital advice platforms.

7. Best Interests and Related Obligations

7.1 Do you consider that the statutory safe harbour for the best interests duty provides any benefit to consumers or advisers, and would there be any prejudice to either of them if it was removed?

In regard to general insurance broking the following safe harbour provisions apply:

a) identified the objectives, financial situation and needs of the client that were disclosed to the provider by the client through instructions;

b) identified:

[16] As defined by the *Corporations Act 2001*

(i) the subject matter of the advice that has been sought by the client (whether explicitly or implicitly); and
(ii) the objectives, financial situation and needs of the client that would reasonably be considered as relevant to advice sought on that subject matter (the client's relevant circumstances); and

c) where it was reasonably apparent that information relating to the client's relevant circumstances was incomplete or inaccurate, made reasonable inquiries to obtain complete and accurate information.[17]

These provisions reflect a general insurance broker's existing common law duties. While NIBA acknowledges that the safe harbour provisions are only one way to demonstrate that a broker has complied with their best interest duty, they nevertheless provide clarity to brokers as to the operation and interpretation of the best interests duty.

If these provisions were removed, it may result in an over-cautious approach to the provision of advice which would likely increase the cost of advice and discourage brokers from providing personal advice.

This lack of clarity may result in an increase in the cost of professional indemnity insurance which would ultimately be passed on to clients.

NIBA is currently not aware of any negative consumer outcomes arising as a result of a general insurance broker having satisfied the safe harbour provisions. In light of an absence of any consumer detriment NIBA would not support the removal of safe harbour.

NIBA notes that the additional obligations on financial advisers in regard to safe harbour provisions may create issues not experienced by the general insurance advisory industry (see in particular subsection 961(B)(2)(g) of the Corporations Act requiring the adviser to take any other step, that at the time of the advice being provided would reasonably be regarded as being in the best interests of the consumer). One possible solution to this issue is to remove those provisions of concern instead of removing the safe harbour completely.

If these provisions were removed NIBA would recommend that the best interests duty be amended to more accurately reflect the duty as it should reasonably apply to different types of financial advice having regard to the unique nature of advice of general insurance advice, as done in similar jurisdictions such as the United Kingdom.

7.2 If at all, how does complying with the safe harbour add to the cost of advice and to what extent?

NIBA members have provided feedback that complying with safe harbour obligations does not materially impact the cost of advice as the provisions largely reiterate brokers' existing obligations.

[17] S961B(2) *The Corporations Act 2001* (Cth)

7.3 If the safe harbour was removed, what would change about how you would provide personal advice or how you would require your representatives to provide personal advice?

See NIBA's comments above.

7.4 To what extent can the best interests obligations (including the best interests duty, appropriate advice obligation and the conflicts priority rule) be streamlined to remove duplication?

NIBA does not believe that there is any overlap between the best interest duty and the appropriate advice obligations. Rather, the two obligations complement each other with the appropriate advice duty only concerned with the content or substance of the advice being provided and only after the best interest duty has been satisfied.

There is however overlap between the obligation to act in the client's best interests and the obligation to prioritise the client's interest above all others if there is a relevant conflict. As noted by the Australian Law Reform Commission in their Interim Report "acting in the best interests of a client would arguably always require prioritising their interests over those of the provider"[18]

7.5 Do you consider that financial advisers should be required to consider the target market determination for a financial product before providing personal advice about the product?

Brokers providing personal advice are required to act in the best interests of their clients. This involves expertise and research far beyond a TMD, which can be vague and generic in nature. NIBA does not believe that general insurance brokers should be required to consider the target market determination **(TMD)** prior to providing personal advice about the product. In NIBA's view this would create unnecessary complexity and additional costs of providing advice for personal advice providers, while not providing any benefit to clients.

The provision of personal advice requires the provider to undertake a thorough investigation of the client's needs and suitable products prior to a recommendation being made. Under s961G of the *Corporations Act*, general insurance brokers are already required to consider whether the advice is suitable for the client.

While ASIC is yet to finish their review of retail product TMD's, NIBA members have provided anecdotal feedback that they are generic in nature (see Appendix B) and unlikely to provide value to the client, especially if poorly drafted. While brokers may consider the TMD when determining whether a product is suitable for the client, requiring them to do so is unlikely to create any benefit to clients in light of their other obligations. It is for these reasons, that the personal advice exemption was included when the regime was introduced.

[18] (Australian Law Reform Commission 2021)

8. Conflicted Remuneration

8.1 Introduction to broker remuneration models

Most insurance brokers are remunerated through commissions in return for the services they provide to clients and insurers. This commission is paid by the insurer when cover is placed and represents a percentage of the total premium paid by the client.

Unlike life insurance where commission can reach up to 60% of the total premium, commissions for general insurance brokers are significantly less, usually ranging between 10% and 30%. The amount of commission brokers receive varies by product type however commissions paid by insurers within the same product type are relatively similar.

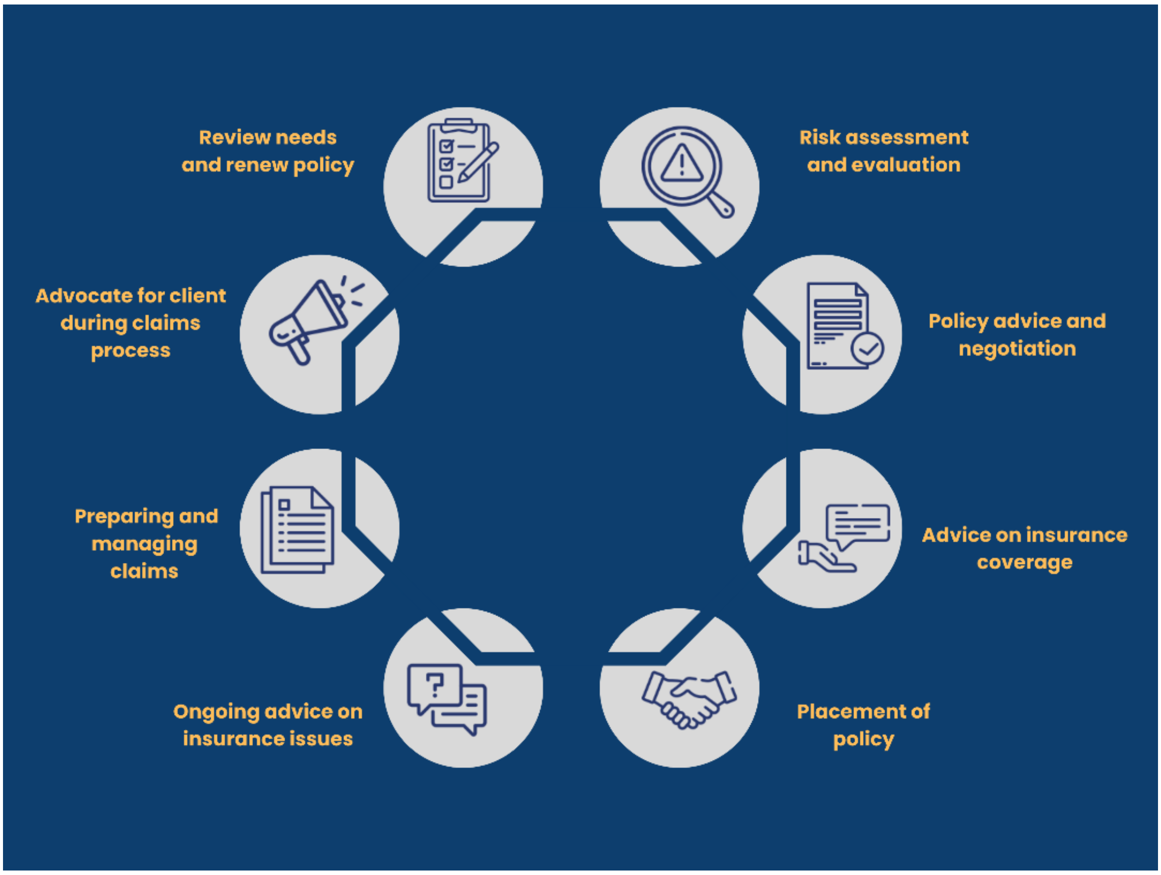
General insurance brokers do not receive upfront commissions. Unlike life insurance where the existence of these commissions encourages churn, general insurance policies are renewed yearly therefore the issue of churn is not applicable to the general insurance industry.

Importantly, unlike life insurance, general insurance policies are not guaranteed to be renewed. Insurer terms and premiums can vary from year to year, or even be withdrawn, meaning brokers are constantly involved in the ongoing renewal of the product or recommending more suitable products when they become available.

Brokers may also operate under a fee-for-service model, where the broker is remunerated via broker fees which are paid by the client, or a combination of both commissions and fees, depending on the type of product being arranged and the nature of the risk.

The services general insurance brokers provide to their clients can be divided into two categories; pre-placement services (such as risk assessment, evaluation of needs, and policy advice and negotiation) and post-placement services (such as claims support and advocacy, policy reviews, and policy renewals (*see figure 1*). Importantly, most general insurance brokers don't receive any money for their services until after a policy is placed and the commission is received from the insurer.

Figure 1: Broker client journey[19]



Risk assessment & evaluation of insurance needs

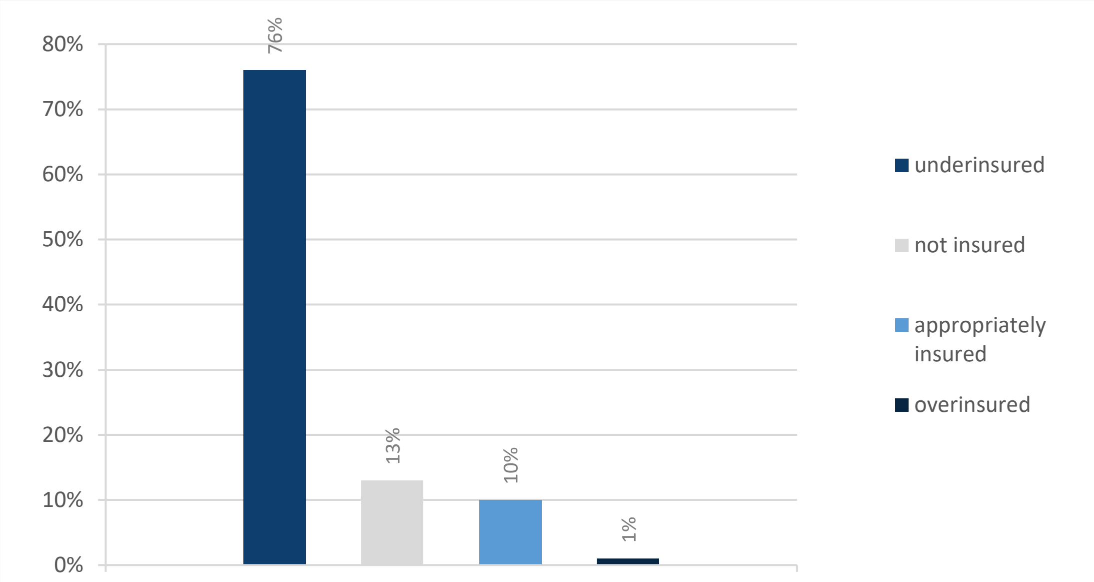
Insurance brokers are experts in identifying, assessing, and managing risk. Insurance brokers take a comprehensive approach to identify risks, examining what risks the client faces today as well as any measures the client has in place to manage these risks, including existing insurance cover. Brokers provide risk management expertise and strategies that may reduce the clients' level of risk and improve their insurance coverage prospects. Often brokers will be able to identify risks that were not previously covered, improving the client's overall risk position, examples of this include cyber and business interruption.

Policy advice and negotiation

Brokers are able to access a broad range of products, many of which are not available in the direct market. In addition, they can negotiate with insurers to change policy wordings to better suit the needs of their client. This enables brokers to match clients with the most suitable product for their needs. This product-matching reduces incidents of under-insurance, enabling clients to not only be more resilient but also more likely to recover faster in the event of a claim. When asked about their most recent client who had not previously used an insurance broker, 89% of brokers surveyed indicated that the client was either under-insured or not insured (*See figure 2*).

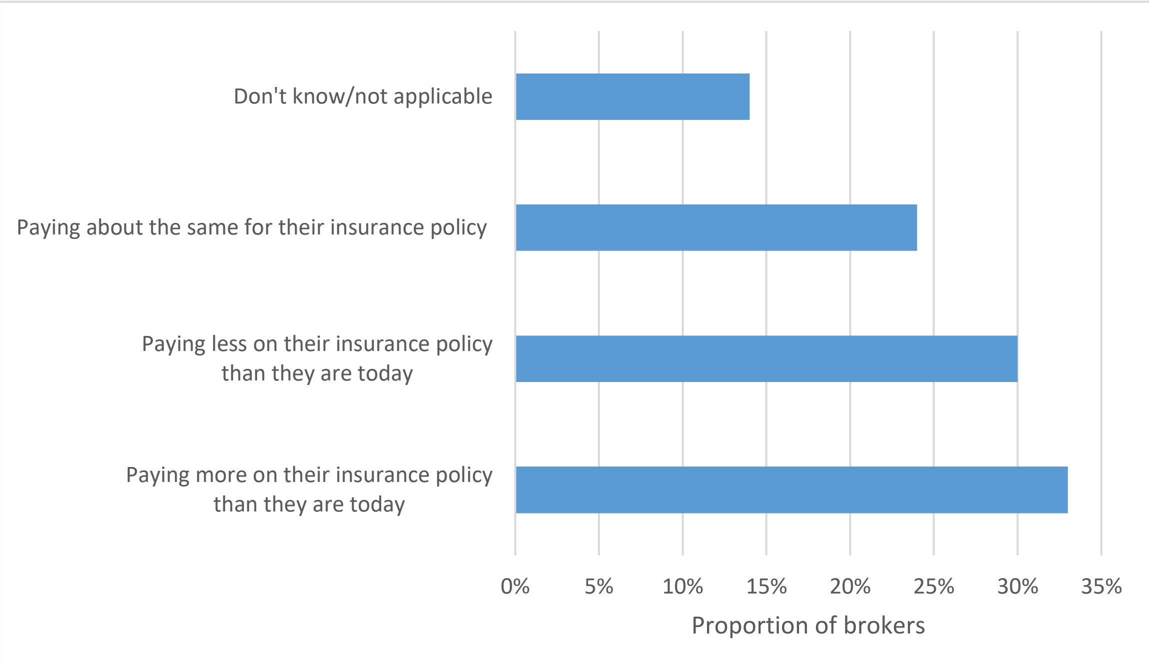
[19] (Deloitte Access Economics 2020)

Figure 2: Previous insurance levels of new broker clients.[20]



Importantly, this increase in coverage does not always equal higher premiums, as when asked about the premiums these clients were paying, 33% of brokers indicated that their newest client was paying more on their policy prior to engaging a broker (*see figure 3*). This is unlikely to reflect reduced cover, as only 1% of brokers identified their newest client as having been overinsured.

Figure 3: Client's level of premium, prior to engaging their broker.[21]



[20] (Deloitte Access Economics 2020)
[21] (Deloitte Access Economics 2020)

Ongoing advice

Insurance brokers review their client's insurance needs in line with changes to their circumstances and/or risk appetite. Brokers are also able to explain to client's the potential impacts of decisions from an insurance perspective so that the client is informed prior to making a decision and can mitigate any adverse impacts to their overall risk position.

Claims support and advocacy

Arguably one of the most important of a broker's duties is assisting the client in the event of a claim.

When an insured event occurs, brokers act as their clients' advocates during the claims process. This may include;

- preparing and lodging the claim with the insurer;
- collecting evidence to support the clients' claim
- engaging the services of external experts to provide evidence;
- negotiating a settlement with the insurer;
- managing communications with the insurer and other parties;
- providing support to clients;
- arranging quotes for repair and/or replacement of damaged items; and
- scheduling repair works.

Almost all general insurance brokers provide some level of claims support and/or advocacy to their clients. Clients who use a broker are significantly more likely to be satisfied with their claims experience and have more of their claims covered than those who purchase insurance through the direct market (See section 8.4 for more detail).

These favourable claims outcomes are due to a broker's ability to tailor insurance products to more accurately reflect the client's level of risk and their intimate understanding of insurance products, policy wordings and the claims process.

Importantly, in most cases, clients do not pay an additional fee to the broker for their assistance in managing a claim. Claims management and advocacy services are part of the suite of services brokers provide to their clients in return for the remuneration they receive.

Case study 2: Bushfire damage to business (primary producer) and domestic property

Client G suffered extensive damage to their property as a result of the 2019/20 'Black Summer' bushfires. The client's fencing and irrigation systems were destroyed, and various other property items were lost. The insurer initially attempted to limit the settlement to the farm fencing limit contained in the policy ($10,000), less than half the original claim put forward by the client.

Upon reviewing the client's policy, the broker's claim advocacy team identified that the client had taken out cover for their farm property as well as domestic risks. The claims advocate identified potential for crossover between the policies when it came to the fencing and irrigation damages.

These were brought to the insurer's attention as well as additional sub-limit costs (firefighting, removal of debris, adjustment for consumer price index etc.) that increased the amount the client could claim under the policies. The team also identified that the client had been incorrectly charged an excess, as insurers had promised to waive policy excesses on certain insurance classes affected by the bushfires.

After review and negotiation, the initial fencing and irrigation claim was settled in full for approximately $35,000. In addition to this settlement, it was identified through discussions and review that additional costs, initially believed to be outside the scope of the policy, would be eligible to be paid. [22]

Case study 3: Insider knowledge about policy detail delivers a successful claim

Client O was struck by a vehicle whilst crossing a street against the pedestrian indicator. The insurer of the vehicle sued Client O for $8,000, relating to the repair of the vehicle. At the time of the accident, the client was living with their parents in their home and did not have the funds to pay the claim.

Client O was referred to an insurance broker, who identified that as a deemed named insured of their parents' home and contents insurance policy, Client O was entitled to benefits under the public liability section relating to damage to property belonging to other people. Client O's parent's insurance company subsequently accepted the claim and paid the other insurer the $8,000 meaning the client was not out of pocket. [23]

Policy review and renewal

At renewal, brokers review their client's needs as well as any developments in the broader insurance industry to ensure that their client's risks are adequately addressed. A broker may need to facilitate insurance with another provider (if better terms become available or the existing insurer withdraws from the market or amends rates).

A renewal may involve twice the amount of work as was originally required to place the policy, yet the level of commission remains capped. Correspondingly, if premiums increase dramatically a broker may assist their client by rebating some of the commission to reduce the premium for the client.

Where appropriate brokers may visit their small business clients to conduct a walkthrough of the premises and discuss any changes to the business' operations and assets since the policy was last placed.

Value to insurers

In addition to the services brokers provide to their clients, brokers also provide many services to insurers at each stage of the insurance process. Brokers support insurers to distribute their products more efficiently, reducing distribution costs and providing access to a broader range of clients (*See figure 4)*.

[22] (Gallagher 2022)
[23] (Office Insurance n.d.)

Figure 4: At each of these stages of the transaction, the brokers' service reduces costs to the insurer and the client.

Transaction stages	Intermediary service	Cost reduction
Searching and matching	• Direct sales of information • Matchmaking • market-making	• Search costs • Information costs • Opportunity cost of time
Availability of products and immediacy	• Compensation of variances in demand and supply	• Opportunity cost of time
Negotiating and contracting	• Strong bargaining position • Exploitation of differences in contract terms between supply and demand market side • To standardise contracts	• Negotiation costs • Information costs • Administrative costs • Opportunity cost of time
Monitoring and guaranteeing	• Expertise in determining product and service quality • Cross-sectional and temporal reuse of information • Guaranteeing high product quality	• Information costs • Monitoring and control costs • Costs resulting from uncertainty • Investment in expertise

Brokers reduce distribution costs for insurers by:

- **Reducing the transaction costs** of engaging with clients directly, including by entering client data directly into insurer IT platforms, collection and remission of premiums to the insurer, etc;
- **Reducing the time** which an insurer spends engaging with clients directly
- **Avoiding the costs of establishing or upscaling internal distribution networks**, and
- **Supporting client management** and the quality assurance of client provided information.

Insurers support this assertion, noting that the brokers support a range of operational efficiencies, especially when dealing with more complex risks and products, where there is a higher rate of product tailoring (and more detailed information about the client is required).[24]

Brokers also play a key role in supporting insurers' market presence especially in regional and rural areas. Brokers service and support a range of clients across different geographic settings providing an extensive, Australia-wide distribution network for insurers, and giving clients across Australia access to the Australian and international insurance markets that may not otherwise be available.

8.2 Existing consumer protection regime

There is already a robust consumer protection regime in place for insurance broker clients, with protections provided by; general law, the Corporations Act, the Australian Financial Complaints Authority, the Insurance Brokers Code of Conduct and other relevant legislation.

[24] (Deloitte Access Economics 2020)

The Corporations Act

The Corporations Act requires insurance broker licensees (amongst other things):

- to act in the best interests of a retail client;[25]
- only provide personal advice to a retail client if it would be reasonable to conclude that the advice is appropriate to the client;[26]
- meet general licensing conditions e.g., to provide financial services efficiently, honestly and fairly, have in place adequate arrangements for the management of conflicts of interest and have for retail clients, an internal dispute resolution scheme that meets ASIC requirements and belong to the external dispute resolution scheme AFCA[27];
- to be responsible for the training, compliance and conduct of their representatives;
- disclose important information in the Financial Services Guide to retail clients about their services, role, remuneration and relevant associations etc;
- to disclose its remuneration to retail clients when providing personal advice along with other important information;
- notify ASIC of any reportable situations regarding breaches of obligations; and
- to be bound by the determination of and cooperate with AFCA.

The general law duty of care, fiduciary obligations and other legislation such as the ASIC Act supplement the above protections.

Australian Financial Complaints Authority (AFCA)

All insurance brokers are required by law to hold AFCA membership. AFCA is an impartial external dispute resolution scheme that is provided free of cost to consumers and who's decisions are binding on licensees.

The general insurance broking industry continually records a low number of AFCA complaints *(see figure 5)*, especially when compared to direct general insurers. In the 2020-21 financial year AFCA received a total of 412 complaints relating to the conduct of general insurance brokers. In comparison, AFCA received 16273 complaints relating to general insurers.

Additionally, a portion of the complaints received by AFCA from broker clients are actually complaints against the insurer, however these complaints are still recorded against the broker for the purposes of AFCA data reporting.

In conversations with NIBA, AFCA has repeatedly indicated that it does not have any significant concerns with general insurance broker conduct or complaints. In recognition of

[25] S691B *Corporations Act 2001 (Cth).*
[26] Ibid
[27] S912A *Corporations Act 2001 (Cth).*

this, a lower limit has been applied to general insurance broker complaints and disputes in the AFCA Rules.

Figure 5: Complaints against general insurers and general insurance brokers 2010-2021

	General insurance broker	General insurer
2010/11	179	8,660
2011/12	186	10,218
2012/13	165	9,182
2013/14	208	8,339
2014/15	175	8,254
2015/16	220	10,451
2016/17	233	12,519
2017/18	248	13,434
2018/19	302	15,680
2019/20	338	19,008
2020/21	412	16,273

Insurance Brokers Code of Practice

All NIBA members are required to subscribe to the Insurance Brokers Code of Practice. The Code has recently been updated to further raise professional standards for the industry and ensure the Code meets community expectation.

In addition to banning contingent and preferential remuneration (including profit sharing arrangements, volume-based commissions and overrider commissions) except where the broker is acting under a binder authority, the new Code also requires members to disclose the amount of commission they receive to all individual and small business clients (as defined by the *Corporations Act*) regardless of whether the broker is providing services under a general advice or personal advice model.

To complement these changes, the Code also introduces new obligations for members when disclosing actual or perceived conflicts of interest. Under the new Code brokers must clearly inform the client of any identified of perceived conflict of interest, engage with the client to manage the conflict in the clients' best interests and seek written consent from the client before continuing.

NIBA notes that in recognition of the conduct of the general insurance broking profession:

- lesser regulatory costs have been applied in the ASIC supervisory levy regime for general insurance brokers than those that apply to other financial advisers;

- following on from the Financial System Inquiry and other Government and ASIC reviews after careful consultation and consideration by stakeholders, general insurance brokers were deliberately not subjected to the same additional obligations applied to "relevant providers" (i.e., financial planners); and
- the new Design and Distribution Obligations in part 7.8A of the Corporations Act include specific carve-outs for personal advice services providers

8.3 To what extent has the ban on conflicted remuneration assisted in aligning adviser and consumer interests?

As general insurance brokers are currently exempt from the conflicted remuneration ban NIBA is unable to comment on whether the ban has assisted in aligning adviser and consumer interests. However, NIBA notes that the most effective way to align these interests is by requiring advisers to act in the best interest of their clients.

Despite numerous findings by the Royal commission of systemic issues within the mortgage broking industry that resulted in poor client outcomes, the introduction of a best interest duty for mortgage brokers was considered sufficient to satisfy concerns regarding conflicted remuneration.

8.4 What would be the implications for consumers if the exemptions from the ban on conflicted remuneration were removed, including on the quality of financial advice and the affordability and accessibility of advice?

Removing the conflicted remuneration exemption for general insurance brokers would give rise to significant detriment to consumers, insurance brokers and the insurance industry more broadly that outweighs any proposed benefits. These adverse effects would in particular, impact small businesses and lower income earners who may not have the means to pay for advice under a fee-for-service model.

NIBA's view, which is consistent with previous Australian and international reviews, is that any such a proposed change will not provide a net consumer/ community benefit, having regard to the significant adverse effects likely to arise, including;

- reduction in the affordability of advice;
- lower claims settlements;
- reduction in cover for unusual or 'niche' risks;
- higher insurance premiums;
- a reduction in competition;
- an increase in underinsurance and non-insurance levels;
- decreased community resilience to recover after catastrophe events such as floods and fires;
- less access to advice outside major cities;

- closure of general insurance brokerages, many of which are small businesses;
- increased demand for AFCA services due to a reduction in professional advice; and
- discouraging clients from engaging with their broker at the risk of incurring fees.

Reduction in affordability of advice

While the topic of whether to abolish commissions has been widely discussed since the Financial Services Royal Commission, very little consideration has been given to what an alternative funding model for general insurance broking services would look like and the impact this alternative model would have on clients.

As commission is a fixed percentage of the premium paid by the client, the broker receives the same amount no matter how many hours of work is required for the policy e.g., complicated risks, multiple or difficult claims etc (*Case Study 4*). There is no way for the broker to know ahead how many hours of work each policy will require over the 12-month period the policy is in effect.

Case Study 4: Multiple claims, complicated placement, and the effects of a fee-for-service model

Richard is a self-employed tradesman and uses an insurance broker to purchase insurance for his work vehicle. Richard's broker conducts a thorough assessment of his needs and recommends taking out a comprehensive car insurance policy that with *Good Cover Insurance* with a sum insured of $34,000. Brian pays $2,700 for his insurance of which his broker receives $472 in commission.

Two months later Richard's work vehicle is involved in rear-end collision and requires repair. Richard's broker assists him in making a claim to the insurer and organises a replacement vehicle under his insurance policy so he can continue working. Due to a lack of parts, the repair costs blow out and *Good Cover Insurance* refuses to cover the increase in costs. The broker is able to successfully advocate on Richard's behalf and the vehicle is repaired and returned to him at no cost to Richard.

4 months later Richard's vehicle is damaged whilst parked near a worksite. Richard's broker helps him to lodge a second claim and again arranges a replacement vehicle under the policy so Richard can continue working.

Karen has a previous conviction for a driving offence and is struggling to find an insurer who will cover her newly purchased vehicle. Her friend Brian suggests she calls an expert and gives her the number of his broker. The broker discusses Karen's situation and recommends she take out a comprehensive car insurance policy with *Better Cover Insurance* with a sum insured of $20,000. Due to her previous conviction Karen's premium is higher, so she also pays $2,700 for her insurance. The again broker receives $472 in commission. Karen makes no claims that year.

If this commission were to be removed brokers would instead have to transition to a fee-for-service model, with client's most likely to be charged an hourly rate by the broker or a pre-determined fee for each service the broker provides. Under a fee-for-service model, clients with complex or difficult to place risks (such as those living in areas commonly affected by natural disasters) would have to pay more than those with simpler risks and more insurer friendly postcodes.

If an insured event occurs and the client needs to make a claim under the policy, another fee would be charged, with clients with more complex claims, or claims that require more involvement by the broker due to a claim denial or dispute by the insurer, again paying more. This would also discourage client's from making smaller value claims, which may ultimately affect subsequent claims if the insurer rules that the previous unrepaired damage contributed to the claim.

A fee-for-service model would also discourage clients from engaging with their broker during the policy period so as not to incur fees. This may mean that brokers may not be made aware of changes to the client's circumstances that could impact how the policy responds in the event of a claim.

It is important to note that issuance of a policy by the insurer is not a guaranteed outcome. Under the commission model, a broker is not entitled to any remuneration until a valid and binding contract of insurance comes into effect. The fact that the broker and their staff have expended time attempting to place insurance is irrelevant, if an insurer refuses to issue a policy or if the client decides not to proceed the broker does not receive any remuneration. Under a fee-for-service model, clients would be required to pay either an upfront fee or charges at an hourly rate regardless of the outcome.

Direct payment models, such as hourly fees, would likely require more controls and oversight as firms would need to review invoices and monitor the time each advisor spent on each of their accounts to ensure that the charges were appropriate. This would increase compliance costs for firms, which would ultimately be passed on to the client.

Upfront fees discourage consumers from obtaining advice, especially if the consumer is not aware of the risk or does not perceive the risk to be significant enough to warrant the investment. Fee-based models are usually more affordable to those on higher incomes. NIBA would argue that many consumers would not have the financial means to pay the true cost of the advice they receive. This would create a perverse environment where the benefits of personal advice are only available to certain sectors. A large proportion of small business insurance in Australia is implemented through a broker. This is the most price-sensitive sector of the market and, as such the sector that would be most affected.

In part, commissions remunerate brokers for the value and services they provide to insurers (see section 8.1). Banning commission would simply shift the cost of compensating brokers for these services from the insurer to the client.

Previous reviews that have recommended the removal of insurance broker commissions under the pretence of lowering premiums have done so based on a misunderstanding of the nature of broker commissions. Removal of a 17.5% broker commission would not result in a decrease to the client's premium of the same amount as insurers would still need to compensate brokers for the services and value they provide, which would in turn increase premiums.

In 2017 icare removed broker commissions for home warranty insurance products, to bring them in line with other types of insurance offered by the insurer. At the time, icare announced that the removal of a 15% broker commission would decrease the cost of policies[28], however subsequent premium reductions failed to eventuate with consumers instead being left to cover the cost of their broker's services.

Lower claim settlements

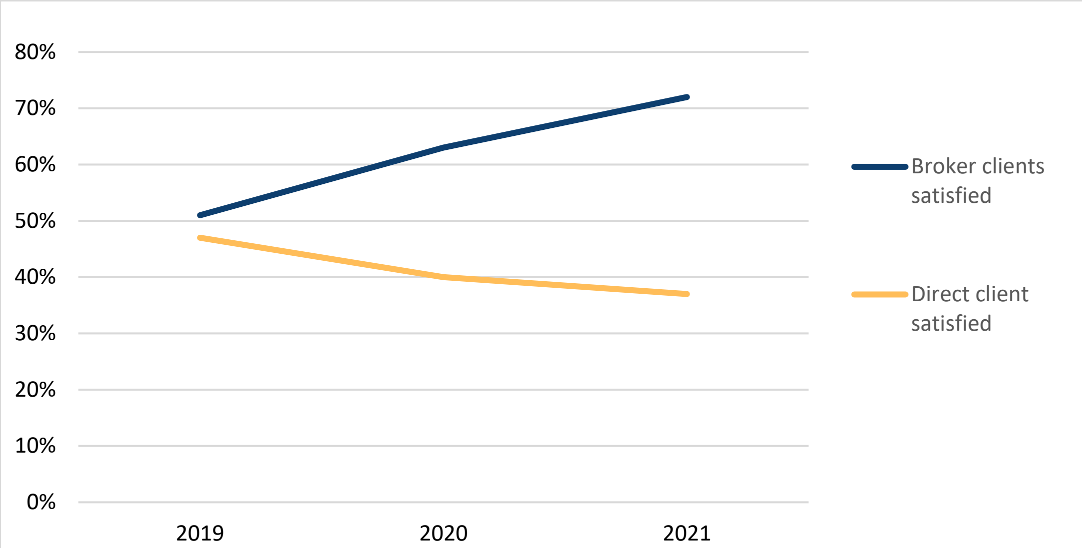
With quality risk advice now out of reach for many Australians, due to the removal of commissions and the introduction of an upfront user-pays model, more and more consumers will be forced to purchase insurance from the direct market. Research has repeatedly shown that clients who purchase insurance through the direct market experience worse claims outcomes than those who use a broker and receive advice.[29] Often direct insurance customers believe themselves to be protected. It is only after a claim is made and the insurer denies liability that issues arise. When this occurs, clients are usually in a vulnerable position as they rely on the benefit under their policy to return them to their pre-claim position.

Brokers are familiar with the claims process and are able to more easily navigate what is often a confusing and stressful process for clients. Clients whose brokers assist them in the claims process are much less likely to feel their claim is complex compared to those who manage the claim on their own.[30]

Clients who use a broker are significantly more likely to be satisfied with their claims experience than direct insurance customers *(see figure 6).* Broker client's satisfaction with their claims experience has been increasing over time, while direct client satisfaction has decreased. A 2021 survey of broker and direct clients who had made a claim found that 72% of broker clients were satisfied with their claims experience compared to only 37% of direct customers.

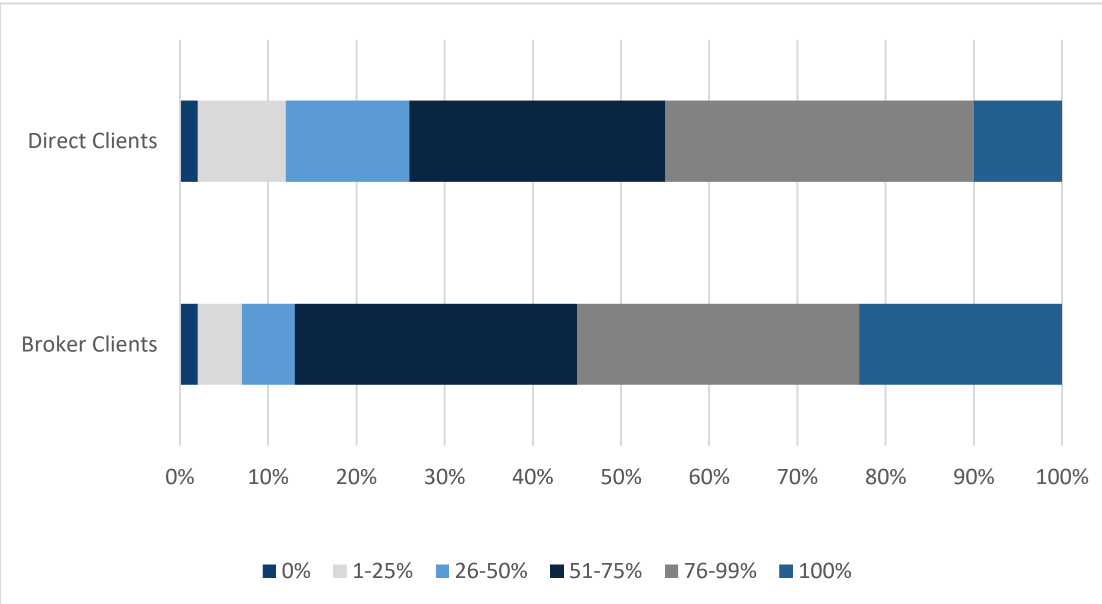
[28] (icare 2019)
[29] (Deloitte Access Economics 2020)
[30] (Deloitte Access Economics 2020)

Figure 6: Satisfaction with claims experience by purchase channel[31]



Broker clients are also more likely to receive favourable claim outcomes than customer who purchase insurance directly from an insurer. A survey of SME clients about their claim outcomes showed a significant difference between the proportion of loss covered for broker clients, compared to direct insurance customers. Clients who purchase insurance through an insurance broker are more than twice as likely to be fully covered for their claims (*See figure 7).* Broker clients also had a higher amount of loss covered, with 87% of broker clients covered for more than half of their claim, compared with 74% of direct insurance customers.

Figure 7: Claims coverage by purchase channel[32]



[31] (Vero Insurance 2021)
[32] (Deloitte Access Economics 2020)

Reduction in competition

While the general insurance market is usually seen as being relatively competitive, it is in fact dominated by four major insurers with white labelling practices creating the illusion of competition.[33] These four major insurers may not all operate within the same geographical area or offer the same types of products.

Brokers support competition in the general insurance market through a variety of services and capabilities, including their knowledge of the general insurance sector and products and their access to a broader range of insurance and non-insurance products (including products that may not be available in the Australian market). The result is a more competitive and dynamic general insurance market, whereby insurers must compete and innovate to maintain their market share. This greater competition leads to better prices and quality for consumers.

Brokers support clients by reducing the information asymmetry they face in the general insurance market. This information sharing increases the level of competition between insurers, in terms of more accurate pricing to reflect the clients' risk profile, and increased product competition.[34]

Brokers provide insurers with detailed and accurate client information. This information allows insurers to more accurately price risks. Premiums are most competitive when the insurer is confident that their pricing accurately reflects the risk.[35]

Brokers also provide information to clients in the form of comparisons of general insurance products. This allows clients to make comparisons of the prices of like-for-like products, rather than comparing prices of products that may offer vastly different levels of cover.

In the absence of competition, the complexity between insurance products typically results in relatively high degrees of customer inertia and reliance on familiar brands, which can result in higher premiums for customers and act as a disincentive for new entrants in the market.[36]

Reduction in innovation and availability of certain covers

General insurance brokers support insurer innovation by providing advice to insurers about emerging demand and introducing new products to an insurers' client base. The importance of these services must not be underestimated and anything which might reduce broker services or cause the broker to restrict its liabilities or duties, would be counterproductive for commerce and the consumer.

Insurance brokers work with insurers to develop specific products and to enable the manufacture of niche products to respond to the needs of clients. The remuneration generated from commission arrangements facilitate insurance brokers in delivering such

[33] (Productivity Commission 2018)
[34] (Deloitte Access Economics 2020)
[35] (Deloitte Access Economics 2020)
[36] (Deloitte Access Economics 2020).

products in a cost-effective and efficient manner for the benefit of consumers: keeping prices down, enhancing choice and delivering professional service and advice to customers.

A consequence of any ban would be a severely restricted market for niche products and 'high-risk sectors' that are not provided by mainstream insurers, for example, childcare, sports clubs, community and disability services etc.

Closure of general insurance broker firms

If the exemption from the conflicted remuneration ban for general insurance brokers was removed, we would likely see an exodus of general insurance brokers from the industry as was seen in the financial planning space, following similar bans or caps on commission. This may disproportionately impact clients in regional and rural areas who already have fewer brokers to choose from.

Typically, large international broker income is derived more from fees than commission, due to the nature of their predominately corporate client base. By contrast, smaller brokerages are more dependent upon commission and will therefore be disproportionately impacted.

Increase in underinsurance and non-insurance levels

Under-insurance occurs when the level of cover provided by an insurance policy is less than the claim. According to the ASIC, a policyholder is likely to be underinsured if their coverage is less than 90% of the claim.[37]

Often under-insurance only comes to light following a large-scale insurable event, such as a natural disaster. Because of this it is extremely difficult to accurately quantifying the extent of under-insurance and non-insurance nationwide. Notwithstanding these difficulties available, evidence indicates that it remains a significant problem. Approximately 27 per cent of home lost during the 2019/20 Bushfire Season were not insured,[38] in 2013 after bushfires decimated properties in the Blue Mountains figures revealed that more than 82 per cent of households affected were not adequately insured[39]. These figures are not isolated to New South Wales with a 2018 report by the Victorian State Government identifying that half of residents had no property insurance coverage or inadequate coverage.[40] More recently, as part of a survey of homeowners impacted by the east coast floods, 37% of respondents said that the benefit they would receive under their policy would be insufficient to cover rebuilding costs.

While the issue of underinsurance is most prevalent in the domestic insurance market, small businesses are not immune. A report into non-insurance in the SME sector found that 12.8 per cent of small businesses were not insured.[41]

Brokers play an important role in reducing levels of underinsurance and non-insurance by providing access to a broader range of insurers and products and providing advice as to a suitable level of cover. A Brokers' role in helping difficult to ensure clients acquire suitable

[37] (Australian Securities and Investments Commission 2014)
[38] (Snow 2020)
[39] (LegalAid New South Wales 2014)
[40] (State Government of Victoria 2018)
[41] (Insurance Council of Australia 2015)

insurance was noted by the ACCC in the first interim report of the Northern Australia Insurance Inquiry:

"Taken together, the use of intermediaries within northern Australia is far greater than for the rest of the country, with insurance brokers particularly utilised. This suggests that finding appropriate or alternative products within northern Australia is challenging and that there is a greater reliance on brokers to do this." [42]

Research conducted by Vero found that broker clients were more likely to be fully insured, with those that weren't also more likely to have a plan for recovery in the event of a claim. This highlights the broader risk management role played by general insurance brokers.[43] This is consistent with findings from Deloitte that showed the overwhelming majority of new broker clients were either underinsured or not insured prior to engaging a general insurance broker *(see figure 3).*

Brokers are also able to provide advice to clients on a suitable sum insured value for their risks. This amount can and often does differ significantly from the "market value" of the property, which is also commonly confused by consumers. While a number of insurers have introduced tools to assist consumers in estimating these values themselves, these figures can vary significantly based on the data used to calculate costs[44]. These calculators also do not account for increased building costs due to supply chain and labour shortage issues.

Consumers perceive insurance in a very different way to other types of financial products. General insurance is often regarded as a 'grudge purchase' with consumers less likely to pay a fee for advice in relation to such products.[45] This attitude may lead to an increase in rates of under and non-insurance if consumers were forced to pay for advice.

8.5 Are there alternatives to removing the exemptions to adjust adviser incentives, reduce conflicts of interest and promote better consumer outcomes?

As an alternative to removing the conflicted remuneration and non-monetary exemptions for general insurance brokers, the Review should consider mandating increased remuneration disclosure obligations.

Under the 2022 IBCOP, when acting on behalf of a client brokers are required to disclose the amount of commission (including any non-monetary benefits) they will or expect to receive from insurers to all individual and small business clients.[46] This obligation applies regardless of whether the advice is provided under a general advice or personal advice model.

In addition to the remuneration disclosure obligations the IBCOP also prohibits brokers from receiving certain types of remuneration, including volume-base commissions, profit sharing arrangements and overrider commissions where the broker is acting on behalf of the client.

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[42] (Australian Competition and Consumer Commission 2018)
[43] (Insurance News 2022)
[44] (CHOICE 2018)
[45] (Zurich Australia Limited, 2019)
[46] As defined in the *Corporations Act 2001* a small business is

In NIBA's view these obligations should apply across all distribution models including general insurers and their agents so as to promote greater transparency and encourage competition.

The IBCOP effectively requires brokers to apply the conflicted remuneration test to non-monetary benefits they receive from insurers such as:

- access to technology platforms and IT support;
- education and training;
- event sponsorship;
- marketing assistance; and
- membership services provided by insurance broker networks.[47]

By applying the conflicted remuneration test, brokers can only receive non-monetary benefits from insurers (or others) where doing so could not reasonably be expected to influence the advice they provide.

8.6 Is under insurance a present or emerging issue for any retail general insurance products? If so, please provide data to support this claim.

See section 8.4 for NIBA's comments on underinsurance.

8.7 What other countervailing factors should the Review have regard to when deciding whether a particular exemption from the ban on conflicted remuneration should be retained?

No evidence of misconduct identified by the Royal Commission

The issue of remuneration was discussed at length during the Royal Commission, while general insurance brokers were well within the scope of the Commission's Terms of Reference, the Royal Commission found no serious misconduct, or systemic issues resulting in poor consumer outcomes. Furthermore, no evidence of misconduct by general insurance brokers was found in any of the materials published by the Royal Commission.

While the Royal Commission did identify concerns regarding advisers receiving conflicted remuneration, these concerns related to financial advisers and mortgage brokers advising on and selling non-general types of insurance and direct telephone marketing by life insurance agents involving pressure sales techniques.

In both of these examples, the advisers or sales representatives accused of misconduct were agents of insurers, not insurance brokers and operated in a different cultural, legal and regulatory environment. In addition, the advisers and representatives were acting in the interest of the insurer and not the consumer.

[47] As insurance broker networks derive a portion of their income from commissions paid by insurers, which indirectly funds the provision of services to members, ASIC considers these services a form of non-monetary remuneration.

By comparison, general insurance brokers;

- act on behalf of the client and have to act in the client's best interests (where a general insurance broker is acting on behalf of the insurer this must be clearly communicated to the client) act in their best interests. An insurance broker's business procedures are developed around this core principle;
- must consider the value of the product they are recommending in light of the insured's individual circumstances, not the generic circumstances of a target market;
- typically, only arrange annual policies that are not subject to trailing commissions and the risk of churn; and
- when providing personal advice to retail clients have the obligation to disclosure their remuneration.

International approaches

Financial advice in Australia is already subject to one of the most expansive regulatory regimes among equivalent international jurisdictions. While other markets have taken different approaches to the regulation of general insurance advice, no equivalent international jurisdiction has banned general insurance commissions principally because of the adverse impact this would have on consumers and the market as noted above *(See Appendix C).*

9. Accountants providing financial advice and limited AFSL

9.1 Is the limited AFS licence working as intended? What changes to the limited licence could be made to make it more accessible to accountants wanting to provide financial advice?

As discussed throughout this submission, general risk advice varies significantly from other types of financial advice. It is NIBA's view that only those who hold relevant insurance broking qualifications should be able to provide advice on general insurance products.

10. Disclosure Documents

10.1 How successful have SOAs been in addressing information asymmetry?

In the context of personal advice on general insurance products, some of which (Consumer Credit Insurance and Sickness and Accident Insurance) are subject to Statement of Advice obligations, members have not identified any major gaps in client understanding between products that are subject to Statement of Advice obligations and those that are not. This is likely the result of the trusted adviser relationship between brokers and their clients and engagement that extends beyond documentation and notices.

10.2 How much does the requirement to prepare a SOA contribute to the cost of advice?

NIBA members have indicated that the requirement to prepare a Statement of Advice does not materially contribute to the cost of providing advice.

10.3 To what extent can the content requirements for SOAs and ROAs be streamlined, simplified or made more principles-based to reduce compliance costs while still ensuring that consumers have the information they need to make an informed decision?

NIBA supports a review of current disclosure documentation requirements with a view to transitioning to a more outcomes-based approach that allows product providers greater flexibility to adopt more innovative approaches and reduce complexity.

The 2022 Insurance Brokers Code of Practice: Member Implementation Guide, encourages subscribers to move away from the 'one-and-done' approach to disclosure enshrined by Financial Services Guides and Statements of Advice and instead adopt a continuous disclosure approach throughout the broker-client relationship for material information such as conflicts of interest. Disclosure obligations in the United States of America, provide this flexibility by prioritising the disclosure of material information. Information is material if there is a substantial likelihood that a reasonable person would consider it important when making a financial decision.[48]

10.4 To what extent is the length of the disclosure documents driven by regulatory requirements or existing practices and attitudes towards risk and compliance adopted within industry?

Disclosure obligations for general insurance advice are dependent upon the type of advice being provided (personal or general) and whether the advice is being provided to a retail or wholesale client. If a broker is providing personal advice to a retail client, a Financial Services Guide, a Product Disclosure Statement, a copy of the policy wording and a Statement of Advice (or personal advice disclosures where a Statement of Advice is not required) must all be provided to the client. In addition, from 1st November 2022 brokers who subscribe to the Insurance Brokers Code of Practice will also be required to provide clients with a Terms of Engagement document prior to undertaking any work on their behalf.

The sheer volume of documentation provided can be overwhelming for many clients, especially those who engage a broker's services due to a lack of understanding of their own insurance needs. Research into consumer engagement with disclosure documents found that only 20% of consumers read these documents, with those who do skipping large parts of them and focusing only on sections they perceive to be important.[49]

Two of the most common issues identified by consumers is that the documents were "too long, too complex, and/or used difficult and technical language and concepts" and that the documents "lacked 'candid information' and/or did not provide information that was actionable in light of the consumers' personal circumstances and context". [50]

The length of these disclosure documents is almost entirely driven by regulatory requirements as well as the cautious approach to disclosure taken by many insurance brokers and general insurers. *ASIC Regulatory Guide 175: Licensing: Financial product advisers—Conduct and disclosure* sets out content requirements for both Financial Services

[48] (Hinman 2019)
[49] (Australian Securities and Investments Commission 2019)
[50] Ibid

Guides and Statements of Advice (see Appendix D). Many brokers elect to include other information they are required to disclose to clients in their Financial Services Guide, for example privacy collection notices or information relating to making a complaint and the Australian Financial Complaints Authority, further adding to the length. Because of this, a Financial Services Guide can range between 4 and 25 pages.

There is little evidence to suggest that this increased disclosure assists consumers in making better decisions. A study conducted by Monash University found that decisions made by clients who were provided with longer, more detailed disclosure documents were no more optimal than those made by clients who were only provided with a 'simple' two-page fact sheet.[51]

Financial Services Guides

While this Issues Paper, has predominately focused on Statements of Information and Records of Information, it is important to consider whether other financial disclosure documents such as Financial Services Guides are creating additional regulatory complexity without delivering positive outcomes for consumers.

In the general insurance broking environment, a Financial Services Guide is used to inform clients that;

- the broker may act on their behalf or on behalf of the insurer;
- the broker may provide factual information, general advice, personal advice or a combination of all three;
- the broker may be remunerated in a number of ways;
- the broker is subject to compensation requirements and an IDR/EDR scheme.

On receiving it the customer is aware of what may occur but not what will occur relevant to their specific interaction. It is not until the client receives additional documentation, such as a Statement of Advice (or equivalent disclosure where a Statement of Advice is not required), that the client is told what applies to them. In NIBA's view the provision of a Financial Services Guide does not provide any additional client protection than the previous provisions under the Insurance (Agents and Brokers) Act to give written notice of certain matters before or at the time the contract was entered into. While providing this information in a regulated Financial Services Guide achieves consistency of the delivery of basic information it achieves little else.

Consideration should be given to an alternative model where a standard form of disclosure or education tool for customers could be referred to, saving brokers time and money while allowing them the ability to disclose the particulars of their arrangements with individual clients in their other documents as part of the normal distribution process where the information can be more effectively communicated to clients.

[51] Ibid

10.5 How could the regulatory regime be amended to facilitate the delivery of disclosure documents that are more engaging for consumers?

See comments on streamlining of disclosure documents above.

10.6 Are there particular types of advice that are better suited to reduced disclosure documents? If so, why?

Disclosure obligations in theory, address client vulnerabilities and issues of a material nature. In NIBA's view it is unlikely that either of these matters would change with the type of advice provided. Changes to disclosure documents for particular types of advice would only serve to create an uneven playing field for both advisors and protections for consumers.

11. Other measures to improve the quality, affordability, and accessibility of advice

11.1 What steps have licensees taken to improve the quality, accessibility and affordability of advice? How have these steps affected the quality, accessibility and affordability of advice?

Insurance broking licensees have taken a number of steps to include improve the quality, accessibility and affordability of advice including; joining broker networks, transitioning to a personal advice model and increasing uptake of technology.

Broker networks

Many small-medium sized brokerages are members of a broker network such as Steadfast and Austbrokers. These networks deliver efficiencies of scale and provide members with access to software platforms and services that allow them to manage their regulatory compliance obligations in a cost-effective manner, increasing the quality of advice and reducing the cost to deliver it to clients. Many of these brokerages operate outside of major cities, providing access to advice to a wider geographical area.

Transitioning to a personal advice model

A number of members indicated that they have transitioned to a personal advice model to enable them to provide higher quality advice to their clients.

Uptake of technology

In response to COVID-19 lockdowns a number of brokerages indicated that they had fast-tracked upgrades to their technology systems, including allowing for the provision of advice over tele-conferencing and internet portals.

11.2 What steps have professional associations taken to improve the quality, accessibility, and affordability of advice? How have these steps affected the quality, accessibility, and affordability of advice?

As the professional association for the general insurance broking industry NIBA has undertaken a number of initiatives to improve the quality and accessibility of the advice provided by its members. The most significant of which being the launch of the 2022 Insurance Brokers Code of Practice and advocating for increases to the minimum education standards.

2022 Insurance Brokers Code of Practice

Earlier this year, NIBA launched the 2022 Insurance Brokers Code of Practice after significant consultation with members, consumer groups, regulators, and the broader financial services industry. The new Code includes many increases to existing obligations as well as new obligations that impact the quality and accessibility of advice provided by general insurance brokers.

Recognising that general insurance advice is often complicated, due to both the complexity of the products involved and regulatory requirements around disclosure, the new Code includes an obligation for brokers to communicate using 'clear and concise language and in plain English' as well as an obligation for brokers to take steps to help clients understand the advice they have provided, including costs, key risks and benefits associated with any products recommended.

The new Code also increases brokers' existing obligations to disclose whether the broker is acting on behalf of the client or the insurer through the provision of a terms of engagement prior to any work being undertaken by the broker. Unlike an FSG, which is a broad document covering all arrangements brokers may have in place with their clients, a Terms of Engagement is specific to the scope of the agreed services the broker will provide.

The Code also improves industry accountability by allowing anyone to report a breach of the Code to the Insurance Brokers Code Compliance Committee (IBCCC), not just the impacted client. To facilitate this, members will now be obligated to report suspected breaches of the Code to the IBCCC.

Other obligations that improve the quality and accessibility of advice include;

- licensees must only allow employees and representatives to provide services that match their expertise, skills and experience;
- requirements for continued education and training; and
- conflicts of interest must be managed in the best interests of the client and with their express written consent.

Minimum Education Standards

In 2017 The *Corporations Amendment (Professional Standards of Financial Advisers) Act*[52] increased minimum education standards for financial advisers as defined by s923c of the *Corporations Act*. As the Act excluded general insurance brokers NIBA made a proactive submission to ASIC in regard to determining appropriate educational standards for insurance brokers. In its submission NIBA advocated for increasing the minimum education standard for all general insurance from the current tier 1/tier 2 qualifications to a minimum Certificate IV qualification for some a limited number of defined domestic general insurance

[52] (Corporations Amendment (Professional Standards of Financial Advisers) Act 2017)

products and a Diploma of Insurance Broking for all others. NIBA recommended that these standards apply, regardless of whether advice was provided under a general advice or personal advice model.

NIBA's submission also recommended raising the minimum education standards beyond advisory services to cover the provision of factual information in relation to all general insurance policies. Although an AFSL is not required in order to provide factual information to clients, factual information may be likely to be advice if it is presented in a way that can imply a recommendation about what a client should do. NIBA recommended that those representatives who provide factual information on behalf of AFS licenced insurance brokers be required to attain a Certificate III insurance broking qualification. By achieving this formal insurance broking qualification, representatives would be better placed to distinguish between factual, general, and personal advice to understand and discharge their responsibilities to the client.

11.3 Have ASIC's recent actions in response to consultation (CP 332), including the new financial advice hub webpage and example SOAs and ROAs, assisted licensees and advisers to provide good quality and affordable advice?

NIBA notes that ASIC's consultation paper CP332: Promoting access to affordable advice for consumers and subsequent actions undertaken in response to the same have primarily focused on financial advice in the context of financial planning and life-risk advice.

NIBA members did not indicate that these actions have assisted them to provide quality and affordable advice to their clients.

11.4 Has licensee supervision and monitoring of advisers improved since the Financial Services Royal Commission?

Anecdotally, NIBA members have provided feedback that the level of licensee supervision and monitoring of brokers has increased significantly since the Financial Services Royal Commission. Furthermore, members reported that this increased supervision or the increase in awareness of supervision and monitoring has had a positive impact on the industry by encouraging licensees to review their systems and processes.

12. Conclusion

NIBA looks forward to continuing to engage with the review. This review provides an opportunity to reset after the whirlwind of reforms brought about by the Royal Commission and balance legislative oversight with good consumer outcomes.

As evidenced throughout this submission the types of advice that are provided under the umbrella of financial advice vary significantly. It is these differences that makes regulation of financial advice as a homogenous industry so difficult. NIBA encourages the review to consider these different types of advice in their own right rather than apply a broad brush to all providers of advice. This is especially important for the general insurance advice industry which has not been subjected to the same criticisms as other types of financial advice.

NIBA recognises the important role the regulatory framework surrounding the provision of advice plays in maintaining consumer trust in advisers and supports regulation to address issues where they result in consumer detriment or poor outcomes. There is, however, a need to balance the weight of regulatory reform with the ultimate benefit to the consumer.

Whilst the Royal Commission did not identify any consumer detriment resulting from the provision of general risk advice by insurance brokers, NIBA continues to review the professional standards expected of insurance brokers and has responded by introducing a new Code of Practice that sets standards above the Law in order to raise the professionalism of insurance brokers to the benefit of the clients they serve.

In NIBA's view, the review should encourage self-regulation where it has proven to be effective in addressing consumer concerns and ensuring the consumer benefit is commensurate with the weight, pace and design of regulatory reform.

Should you have any queries or wish to discuss any of the issues raised in this submission please do not hesitate to contact me or my office.

Yours sincerely,

Philip Kewin

CEO

National Insurance Brokers Association

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14. Appendices

Appendix A: General Insurance Broker Case Studies

Financial institution acting as an agent of the insurer

MW had purchased a new car and arranged insurance for the vehicle through his banking provider. The vehicle was subsequently involved in an accident where MW was declared to be the at-fault party. The insurer declined the claim on the basis of non-disclosure, and subsequently cancelled the policy. The bank (which was acting as an agent of the insurer) refused to assist MW with the claim. The repair costs for MW's vehicle exceeded $10,000 with an additional $15,000 for the repairs to the other vehicle, meaning that MW was facing a total of $25,000 in expenses.

MW approached Office Insurance where they were advised that the insurer was not entitled to deny the claim nor to cancel the insurance. The broker negotiated with the insurer on MW's behalf. This resulted in MW's claim being paid in full and their insurance re-instated.

Broker helps client to fight declined claim

CN had held their home and motor vehicle insurance with the same insurer for eighteen years. CN's vehicle was involved in a minor collision which resulted in damage to their portable navigation system and laptop. CN mad a claim to the insurer for a total of $1, 500. After a lengthy investigation, the insurer declined CN's claim on the basis of fraud and also cancelled both their home and motor vehicle policies.CN was distressed at both the insurers' accusations of fraud and their treatment of them as a loyal customer for the better part of 2 decades.

CN sought professional advice and was recommended to Office Insurance. Office Insurance lodged a dispute with the insurer's internal dispute resolution service however the insurer maintained its stance. The broker assisted CN in making a submission to the Financial Ombudsman Service, who handed down a decision in CN's favour.

Incorrect interpretation of policy fought by broker

MM purchased a new motorcycle and arranged insurance for the vehicle through the motorcycle dealer who was acting as an agent of the insurer. MM subsequently attended a riding course hosted by vehicles manufacturer, held at their facility in Sydney.

During the course MM fell off the bike at a relatively low speed, causing approximately $8,000 worth of damage to their vehicle. MM's insurer declined the claim under a policy exclusion which stated that no liability would be accepted if the bike was damaged whilst it was being used on a 'race-track, speedway track or course'. The insurer claimed that the training facility was a course and that the use of the word "course" referred to both an area used for racing and an educational course.

MM was not happy with the insurer's interpretation and engaged Office Insurance to assist with his claim. The broker disagreed with the insurer's interpretation, advocating on MM's behalf to the insurer's internal dispute resolution team. After the insurer again declined the claim, the broker prepared a submission to the Financial Ombudsman Service on MM's behalf. The Ombudsman agreed that the insurer erred in their interpretation of the policy, deciding in MM's favour.

Jewellery Theft

Following a break and enter at their home, the client found their jewellery had been stolen. The claim had stalled for a number of months with the insurer not issuing settlement for a significant portion of the jewellery where proof of purchase was not provided. The insurer advised that their primary concern was that the claimed loss was not sufficiently justified and appointed their in-house investigations team and assessors to review.

In light of this delay, the claim was escalated to the brokers claims advocate who provided information the insurer had indicated they would accept and cited the obligation for all parties to act in good faith under the Insurance Contracts Act 1984. The claim was ultimately paid due to the strength of the claims advocate's position in supporting the case for the client.

Motor Vehicle Accident

The client was involved in an accident when another vehicle veered onto the wrong side of the road and collided with their vehicle. As the accident took place in a remote location, the assessment by the insurer was expected to take months. At the time local police stated that they would hold the vehicle until forensics had attended. On review of the claim the insurer was prepared to wait for the forensic assessment, which was unlikely to be completed in an acceptable timeframe for the client. Following their assessment, the pre-accident value of the vehicle was under-represented by the insurer.

The broker's claims advocacy team was able to gain an agreement from a police officer who attended the scene at the time of the accident to send photographs detailing the damage so the insurer could assess this remotely, avoiding the usual in-person approach. Following negotiations with the insurer, the claims advocacy team succeeded in raising the pre-accident value of the vehicle by almost 30%.

Travel cancellation due to illness

After the client has forced to cancel an overseas holiday due to an unforeseen medical illness, they attempted to make a claim for the costs of accommodation for themselves and their family that they had already paid for under their travel insurance policy.

The insurer denied coverage of the claim under two separate conditions. Firstly, they advised they believed the illness was a pre-existing condition that the client was aware of prior to booking. Secondly, they advised that costs incurred by the other parties travelling were not covered under the policy.

The broker's claims advocate discussed the denials with the insurer and advised that although the client had seen a doctor for an illness, there was no indication at that time of what the illness represented or that it would subsequently result in needing to cancel the vacation. Secondly, they highlighted that all of the costs incurred were paid for by the client, so that they were the only person who incurred a financial loss. In light of the arguments presented by the claims advocate the insurer agreed with their position and settled the claim for the full amount.

Appendix B: Retail General Insurance Product Target Market Determinations

Example 1: Comprehensive private motor vehicle insurance

Key eligibility criteria:	**Vehicle** is: - registered with the relevant transport authority in Australia; - roadworthy, safe to drive and with no existing damage, except for minor wear and tear; - used for private purposes unless a business use has been accepted by the Issuer and shown in the policy schedule; - not used to carry passengers for hire, fare or reward unless accepted by the Issuer and shown in the policy schedule; and - of a make or model accepted by the Issuer and shown in the policy schedule.	
Key exclusions:	The PDS for this cover has specific coverage and exclusions, including: (a) at the time of the accident: - driver was unlicensed, or not following licence conditions; - driver had been declined by the Issuer; - driver was under the influence of, or exceeded the legal limit for, drugs or alcohol, or refused a test for drugs or alcohol; or - vehicle was used for motor sports, trials or testing. (b) loss, damage or liability in connection with: - depreciation; and wear and tear; - mechanical, structural or electrical repairs or breakdowns; - deliberate, malicious or criminal acts caused by, or with the consent of, the insured persons; - liability that could be claimed under a compulsory or statutory insurance policy or scheme; or - consequential loss (such as loss of use), or aggravated, exemplary or punitive damage. See also Limitations and Ineligible Persons below.	
Limitations:	Accidental damage and theft cover:	Third party property damage cover:
	Insured Value – Claims are subject to either a market value or an agreed value limit, as specified in the policy schedule. Other limitations and conditions are specified in the PDS and policy schedule. **Fulfilment options –** claims may be fulfilled either by repair, replacement (where applicable) or by a cash settlement payment depending on the circumstances and subject to the terms and conditions of the PDS.	Claims for legal liability are subject to a per event limit, as specified in the PDS.

Example 2: Home contents insurance

4. What is the target market for this product?

This product is designed to be consistent with the likely objectives, financial situation and needs of Customers who:

Eligibility	• want to insure their contents items (which are primarily used for domestic purposes) as an owner occupier or a permanent tenant of the home or unit the contents are being kept in; or • lease a home or a unit with contents (which are primarily used for domestic purposes) to tenants for use as their permanent residence under a rental agreement and wish to have some limited cover as a landlord. There is no cover where the entire home or unit is used for short-term rental, holiday letting or house sharing (including arrangements booked through an online booking platform); and • have contents that meets our underwriting criteria including: - are located within an acceptable postcode; - are kept in an acceptable type of building; and - are kept in a home or unit that: • is well maintained and in good condition; and • is not primarily used to run a business from or the business activity meets our acceptance criteria.
Customer objectives, financial situation and needs	• require and seek financial protection for loss or damage to the contents due to an insured event not excluded by this product, including flood, storm, fire (including bushfire), escape of liquid, and theft or burglary; • require and seek legal liability cover for having to pay compensation for death or bodily injury to other people, or loss or damage to their property arising from an incident which: - is unrelated to the ownership of the home, unit or land at the insured address; - relates to the ownership or occupation of a unit at the insured address when the legal liability is not covered under a building policy covering the unit; - relates to fixtures and fittings attached to the insured address the Customer is legally responsible for under a rental agreement.

This product is likely to be consistent with the objectives, financial situation and needs of the Customers in the target market because:

- the product provides cover for the types of loss or damage that Customers in the target market are seeking to insure against; and
- the target market for the product covers those Customers who are eligible to receive cover.

Appendix C: Comparison of International approaches to general insurance broking regulation as provided by the World Federation of Insurance Intermediaries.

	United Kingdom	United States	South Africa	Canada	New Zealand
Ban or restrictions on the types of remuneration a broker can receive.	No	No	Yes, caps on the amount and types of commission brokers can receive.	No, as long as agreements align with the Fair Treatment of Customers principles.	No
Obligations to manage conflicts of interest and prioritize the interests of the client	Yes	No	Yes	Yes	Yes
Certain types of clients e.g., individuals and small businesses afforded special protections.	Yes, brokers must *'act to deliver good outcomes for retail customers'*. A 'retail customer' is defined as any policyholder excluding in relation to 'the contract of large risks (marine, aviation, energy)	No	Yes, policyholder protection rules apply to retail business and small commercial business clients.	Yes	Yes, retail clients are afforded additional protections under the Financial Markets Conduct Act.
Different obligations imposed depending on whether advice is provided under a personal advice or general advice model.	The term 'advice' is defined as the provision of a personal recommendation on the merits of purchasing a particular policy. General insurance products are purchased on an 'advised' or 'non-advised' basis	No	A needs analysis is required for every client. Products recommended must be suitable to fulfil the needs of the client.	Not applicable, brokers only provide personal advice.	Not applicable
Limitations on insurers or their agents providing personal advice in relation to their own products	Insurers are only able to provide their products on a non-advised basis	No	No		No

What must be included in an FSG?

RG 175.110 An FSG must be compliant with the requirements set out in the Corporations Act and Corporations Regulations, and must include all of the following:

(a) the title 'Financial Services Guide' on the cover, or at or near the front, of the document (s942A);

(b) the date of the FSG (s942B(5) and 942C(5));

(c) the name and contact details of the providing entity (s942B(2)(a) and 942C(2)(a)) and, if the providing entity is an AFS licensee, its AFS licence number (s912F and reg 7.6.01C(1)(a));

Note: In certain circumstances, the name and contact details of the providing entity do not need to be provided: reg 7.7.05B.

(d) where the providing entity is an authorised representative—the name, contact details and AFS licence number of the authorising AFS licensee(s) and a statement that the providing entity is the authorised representative of that licensee or those licensees (s942C(2)(c) and reg 7.7.06A);

(e) where the providing entity is an authorised representative (and where reg 7.7.05B does not apply to the FSG)—the authorised representative number of the providing entity (reg 7.7.05A);

(f) where the providing entity would contravene s923A(1) by assuming or using the terms 'independent', 'impartial' or 'unbiased' (which are restricted words or expressions) in relation to providing personal advice to a retail client—a statement that the providing entity is not independent, impartial or unbiased, and the reasons why (s942B(2)(fa)(iii) and 942C(2)(ga)(iii));

Note 1: The statement must comply with the requirements set by ASIC: see ASIC Corporations (Disclosure of Lack of Independence) Instrument 2021/125. For more detailed guidance, see RG 175.127–RG 175.134.

Note 2: For more detail on restricted words or expressions, see RG 175.64.

(g) a statement of the purpose of the FSG and, if appropriate, information about other disclosure documents that the client may receive (i.e. an SOA or PDS), together with a description of the purpose of those documents (regs 7.7.03 and 7.7.06);

(h) information about the kinds of financial services that the providing entity:

(i) is authorised to provide (s942B(2)(c) and 942C(2)(d)); or

(ii) will be or is likely to be providing to the client (regs 7.7.10AB and 7.7.10AC). Under this option, an FSG does not have to include information about *all* of the financial services that the providing entity is authorised to provide;

(i) information about the amount of all the remuneration, commission and other benefits that the providing entity (and other persons specified in s942B(2)(e) or 942C(2)(f)) will receive, or reasonably expects to receive, in respect of, or that is attributable to, the advice to be provided where this amount can be ascertained at the time the FSG is provided to the client (s942B(2)(e) and 942C(2)(f), and regs 7.7.04(3) and 7.7.07(3));

(j) where the providing entity reasonably believes that personal advice will be or is likely to be provided *and* the amount of the remuneration, commission or other benefits cannot be ascertained at the time the FSG is provided—either particulars or general information about the benefit (including ranges or rates of amounts) and a statement that the method of calculating the amount of the benefit will be disclosed at the time the advice is provided or as soon as practicable after that time (regs 7.7.04(4)(c), 7.7.04(4)(d), 7.7.07(4)(c) and 7.7.07(4)(d));

(k) where the providing entity reasonably believes that personal advice will not be provided *and* the amount of the remuneration, commission or other benefits cannot be ascertained at the time the FSG is provided—particulars of the remuneration, commission and other benefits (including ranges or rates of amounts) or general information about the remuneration, commission and other benefits with a statement that the client can request further particulars (regs 7.7.04(5)(c), 7.7.04(5)(d), 7.7.07(5)(c) and 7.7.07(5)(d));

(l) details of any associations or relationships that might reasonably be expected to be capable of influencing the providing entity in providing the advice (s942B(2)(f) and 942C(2)(g));

(m) where the providing entity provides further advice or advice to which s946B(7) applies—certain information about obtaining a record of the advice (s942B(2)(g) and 942C(2)(h), and regs 7.7.05, 7.7.08, 7.7.09 and 7.7.10AC–7.7.10AE);

Note: For more detailed guidance, see RG 175.180–RG 175.182.

(n) where the providing entity (or authorising AFS licensee) is a participant in a licensed market or clearing and settlement facility—a statement to that effect (s942B(2)(j) and 942C(2)(k));

(o) where the providing entity is acting under a binder—certain information about the binder and its significance (s942B(2)(i) and 942C(2)(j));

Note: This would generally include an explanation of the circumstances in which the providing entity will be acting under a binder.

(p) details of the dispute resolution procedures that the AFS licensee has in place (s942B(2)(h) and 942C(2)(i)); and

(q) details about the kind of compensation arrangements the providing entity (or authorising AFS licensee) has in place (i.e. whether through professional indemnity insurance or otherwise) and whether these arrangements comply with s912B: see reg 7.7.03A and Regulatory Guide 126 *Compensation and insurance arrangements for AFS licensees* (RG 126).

(b) it must set out brief particulars of the recommendations made to the client by the providing entity, including the basis on which the recommendations were made and brief particulars of information disclosed to the client under s947D(2) and 947D(3) (reg 7.7.09(1)(b)). We consider that reg 7.7.09(1)(b) will normally be satisfied if the providing entity keeps a record that clearly and unambiguously sets out the advice provided to the client (e.g. that the client buy a certain quantity of a certain listed security) and also includes either:
   (i) a summary of the client's relevant circumstances, as ascertained after making the inquiries required by s961B; or
   (ii) a clear statement that information about the client's relevant circumstances is set out in a previous record of advice or SOA provided to the client (the record or SOA should be identified by date)—this option is available only if the providing entity has conducted reasonable inquiries that confirm that the client's relevant circumstances, as set out in the previous record of advice or SOA, have not changed.

What must be included in an SOA?

RG 175.183 An SOA must comply with the Corporations Act and Corporations Regulations, and must include all of the following:

(a) the title 'Statement of Advice' on the cover, or at or near the front, of the document (s947A);

(b) the name and contact details of the providing entity (s947B(2)(c) and 947C(2)(c)) and, if the providing entity is an AFS licensee, its AFS licence number (s912F and reg 7.6.01C(1)(e));

(c) where the providing entity is providing the advice as an authorised representative—the name, contact details and AFS licence number of the authorising licensee(s), and a statement that the providing entity is the authorised representative of that licensee or those licensees (s947C(2)(d) and reg 7.7.11A);

(d) a statement setting out the advice (s947B(2)(a) and 947C(2)(a));

(e) information about the basis on which the advice is or was given (s947B(2)(b) and 947C(2)(b)): see RG 175.191–RG 175.194;

(f) information about the remuneration, commission and other benefits that the providing entity (and the other related or associated persons specified in s947B(2)(d) or 947C(2)(e)) will receive, or reasonably expects to receive, that might reasonably be expected to be or have been capable of influencing the providing entity in providing the advice (s947B(2)(d) and 947C(2)(e), and regs 7.7.09BC, 7.7.09BD, 7.7.11 and 7.7.12): see RG 175.195–RG 175.212;

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INSURANCE BROKERS CODE OF PRACTICE

NIBA
National Insurance Brokers Association.

Insurance Brokers CODE of PRACTICE

CONTENTS

Foreword

Message from the NIBA President

This Code is an initiative of the National Insurance Brokers Association of Australia ABN 006 093 849 (**NIBA**). For 40 years, NIBA has been the respected voice of the insurance broking profession in Australia.

NIBA has been a driving force for change in the Australian insurance broking industry, setting higher standards for professionalism and education for insurance brokers, promoting our industry-standard Qualified Practising Insurance Broker (QPIB) and requiring Continuing Professional Development (CPD) from all members.

NIBA represents around 450 member firms and over 4,500 individual Qualified Practising Insurance Brokers (QPIB) operating throughout Australia.

NIBA is committed to ongoing endeavours to promote and maintain high levels of professionalism and integrity in insurance broking in Australia. The purpose of this Code of Practice, therefore, continues to be:

BUILDING PROFESSIONAL COMPETENCE AND CONSUMER CONFIDENCE

Dianne Phelan
President, 2021–2023
National Insurance Brokers Association of Australia

1.0 WHAT IS THE INSURANCE BROKERS CODE OF PRACTICE?

The 2022 Insurance Brokers Code of Practice (**the Code**) sets out standards of conduct for all Members of the National Insurance Brokers Association (**NIBA**) and non-members who have subscribed to the Code.

The Code is independently monitored and enforced by a Code Compliance Committee.

The Code provides additional safeguards for clients that are not set out in the law. In some areas, the Code sets higher standards than those required by law. No part of the Code limits, or is intended to limit, a client's rights under the law.

The Code represents the commitment of Code Subscribers to clients, prospective clients and other parties with whom Code Subscribers interact in performing services.

The Code serves to guide Code Subscribers and consumers on what to expect throughout the client journey. It sets out the principles that shape the way Code Subscribers behave, deal with people and make decisions.

This version of the Code was developed following close consultation with key stakeholders, including consumer groups, regulatory bodies and the broader intermediated insurance industry.

The Code was launched on 1 March 2022, with the Code taking effect on 1 November 2022. Given the significant updates to the Code, this period allows Code Subscribers time to understand and implement the new obligations within their organisations.

The Code is accompanied by Code Subscriber and consumer information intended to provide guidance on certain topics referred to in the Code, including outlining Code Subscriber best practice, as well as helping consumers understand their rights under the Code.

Consistent with the commitment of NIBA and Code Subscribers to continuous improvement, this Code will be reviewed at least every three (3) years and whenever an urgent amendment is deemed necessary by the NIBA Board.

2.0 HOW THE CODE WORKS

2.1 Who does the Code apply to?

(a) The Code applies to all Members of the National Insurance Brokers Association. Non-members may adopt the Code with approval from NIBA (**Code Subscribers, we, our, us**).

(b) Existing Code Subscribers to the 2014 NIBA Code of Practice (**2014 Code**) must formally adopt the Code by 1 November 2022.

(c) A list of Code Subscribers who have adopted the Code will appear on the Code website at: **www.insurancebrokerscode.com.au**

2.2 When does the Code commence?

(a) The Code applies to all Code Subscriber activities and dealings that take place after 1 November 2022. Code Subscriber activity prior to 1 November 2022 will be managed under the 2014 Code.

2.3 What the Code applies to

(a) The Code applies to all services and activities a Code Subscriber engages in when arranging or advising on general insurance products or alternative risk transfer solutions on behalf of a client. This includes services and advice relating to claims handling, premium funding and risk management (**Covered Services**).

(b) The Code also applies to a Code Subscriber's interactions and dealings with their prospective clients and other parties with whom the Code Subscriber interacts in performing services for their clients.

(c) The Code does not apply where a Code Subscriber is arranging or advising on:

(i) insurance, reinsurance or alternative risk transfer solutions for an insurer or reinsurer;

(ii) health insurance products issued by a private health insurer;

(iii) life insurance products issued by a life insurer; and

(iv) Excluded Services defined in section 6.4 provided to an insurer or reinsurer.

3.0 CODE SUBSCRIBER COMMITMENT

3.1 Code Principles

The Code is underpinned by a set of guiding principles outlined below (**Code Principles**). As Subscribers to the Code, we commit to the Code Principles and will work to embed them and the standards expressed in the Code in our organisation in a timely manner.

(a) Professional commitment

(i) We will ensure we and our staff maintain and improve our competency through relevant qualifications, continued education and training.

(ii) We will promote and uphold the ethical standards of this profession, including promoting the Code and the Code Principles within and outside our organisations.

(b) Ethical behaviour

(i) We, our staff, and representatives will act honestly and with integrity in all dealings.

(ii) We will comply with all relevant laws and obligations, including those obligations set out in this Code.

(iii) We will not engage in any conduct with the intent to avoid or limit our obligations under the Code.

(c) Transparency and accountability

(i) We will communicate with clients and prospective clients in a clear and timely manner.

(ii) We will assist regulators, the Insurance Brokers Code Compliance Committee and external dispute resolution schemes (such as the Australian Financial Complaints Authority (**AFCA**) to the best of our ability.

(iii) We will hold each other accountable for the promotion and implementation of the Code, and for observing Code obligations.

3.2 Code Subscriber commitments

(a) We commit to act in accordance with the Code Principles when we:

(i) perform services for our clients;

(ii) engage with beneficiaries named in our client insurance policies;

(iii) engage with prospective clients, clients and their representatives;

(iv) interact with other insurance brokers, whether they are Code Subscribers or not;

(v) deal with insurers, insurer representatives (such as assessors, adjusters and experts) and other members of the insurance industry; and

(vi) respond to or assist regulators or other enforcement bodies and AFCA.

(b) By adopting the Code, we acknowledge:

(i) we have entered into an agreement with NIBA to comply with the Code;

(ii) if a Code Subscriber breaches its obligations under the Code, the Insurance Broker Code Compliance Committee may impose sanctions on it as set out in Section 11 of the Code;

(iii) we may be sanctioned by NIBA, subject to applicable NIBA member rules and regulations and/or Code Subscriber membership rules that apply;

(iv) a Code Subscriber is in breach of the Code if its employees, representatives or agents breach the Code when they are acting on the Code Subscriber's behalf;

(v) that the Code is designed to work with the laws that cover Code Subscriber conduct and go beyond standards required at law. The Code does not and is not intended to limit a client's rights at law;

(vi) that there may be other codes that apply to services provided by a Code Subscriber (for example, the General Insurance Code of Practice). When other codes apply to services being performed by us, we will comply with the higher of the Code standards that apply in performing those specific services.

4.0 ENGAGING YOUR BROKER

4.1 Understanding our role

(a) Before we agree to act for a prospective client, we will clearly state:

(i) what services we are authorised to provide;

(ii) who we are acting for when responding to questions from a prospective client;

(iii) the extent of the services we are able to provide, including any limits on the insurance products we can arrange. For example, there may be limits due to our competency, insurers we can access and timeframes available;

(iv) that we are bound by the Code and provide a copy upon request; and

(v) if we cannot advise a prospective client or act on their behalf due to a conflict of interest which cannot be managed. We will immediately notify the client upon identifying such a conflict.

4.2 Terms of engagement

(a) If a prospective client agrees to engage us, we will provide information in writing setting out the terms of engaging us before we begin to act on their behalf. If a prospective client wishes us to take immediate steps on their behalf, we will provide this information setting out the terms of engagement, as soon as it is practical to do so.

(b) The terms of engagement will provide information including:

(i) the scope of the agreed services required;

(ii) whether we will provide advice based on personal circumstances or not;

(iii) how we intend to seek quotations from insurance companies; and

(iv) the remuneration we will earn by arranging insurance policies and/or providing advice on insurance cover. Remuneration details are outlined further in Section 6.

(c) We recognise that regulatory requirements for the provision and disclosure of information can mean prospective clients and clients receive a lot of information when they engage us and when we provide them with advice. We will take all reasonable steps to ensure that we provide clear information so that a prospective client or client understands the services they will receive.

5.0 PERFORMING SERVICES

5.1 Communications

(a) We will communicate with clients in a timely manner using clear and concise language and in plain English, subject to regulatory disclosure requirements.

(b) When providing advice, we will take steps to help clients understand the advice we have provided including the costs, key risks and benefits associated with any products we recommend.

5.2 Behaviour

(a) We will provide services, interact with clients and those we deal with in the insurance industry in accordance with the Code Principles.

(b) We will not tolerate discrimination, bullying or harassment by our employees, agents or representatives, and we will take appropriate action to discipline and/or prevent such behaviour occurring in the course of performing services.

(c) We will take reasonable steps to ensure our services are accessible to clients with special needs and introduce training for employees to support clients who experience vulnerability.

5.3 Who we act for

(a) When a client engages us as their insurance brokers and/or risk advisers, we have a duty to act on their behalf and in their best interests.

(b) We may at times act for insurers during the course of an insurance transaction, for example by arranging insurance and submitting claims electronically. While engaged by a client, we will not act for an insurer or another party where doing so would be contrary to our client's best interests.

(c) We will have policies and procedures in place so that we can identify and avoid instances where we may act contrary to a client's best interests.

(d) Where there may be a conflict of interest, we will contact the client in a timely manner and clearly inform them that there may be a conflict of interest. Where there is or is likely to be a conflict of interest, we will engage with the client regarding steps to manage the conflict of interest in their best interests and we may only continue to act on behalf of the client with their express written consent.

(e) We will periodically review our procedures to ensure that they are effective in identifying and avoiding conflicts of interest and are not creating conflicts.

6.0 DISCLOSING WHAT WE EARN

6.1 Disclosing remuneration

(a) If the client is an individual or a small business and we are acting on their behalf, we will provide them with information about any remuneration (including commissions) or other benefits we will or expect to receive as a result of providing Covered Services. See Section 2 for more information on Covered Services.

A small business in this clause means a business employing less than:

(i) if the business is or includes the manufacture of goods <100 people, or

(ii) otherwise <20 people.

(b) This information must include:

(i) the dollar amount of commission we will or expect to receive in providing Covered Services;

(ii) any non-monetary remunerations we receive from insurers as a result of providing Covered Services;

(iii) any fees payable by the client in relation to our services to them; and

(iv) whether we intend to keep any portion of the commission or service fee if the policy is cancelled before it is due to expire.

(c) This information will be provided at the same time and by the same means as our advice to our client.

(d) The obligations in section 6.1 will apply whether Covered Services are provided to a client under a personal advice or a general advice model as defined under the *Corporations Act 2001* (Cth).

6.2 Contingent remuneration

(a) When acting on a client's behalf we will not receive any contingent remuneration including volume-based commissions or profit-sharing arrangements or preferential remuneration, such as (overrider commissions) from an insurer.

(b) Section 6.2(a) does not apply when we are acting on behalf of an insurer or in relation to Covered Services effected under a binder arrangement.

(c) Nothing in section 6.2 limits a Code Subscriber's obligations set out in section 5.3 and commitment to the Code Principles.

6.3 Non-monetary remuneration

(a) When we are acting for a client, we may receive non-monetary benefits, including:

(i) access to technology platforms and IT support;

(ii) education and training;

(iii) membership services provided by insurance broker networks;

(iv) event sponsorship; and

(v) marketing assistance.

(b) We will not accept any non-monetary benefits in exchange for Covered Services where doing so could reasonably be expected to influence the advice we provide.

6.4 Services provided to insurers and others

(a) From time to time, we may enter into arrangements with insurers and others to provide services and support in order to promote the efficient operation of the insurance market. (**Excluded Services**).

(b) Excluded Services means services provided to an insurer or another organisation and paid for by the insurer or the other organisation including:

(i) access to broker-owned and operated technology;

(ii) access to broker-owned intellectual property, including broker insurance wordings;

(iii) insurer consulting services;

(iv) data and analytic services;

(v) risk control and engineering services;

(vi) product development services; and

(vii) binder and cover holder activities outside arranging or advising on general insurance products for insured clients.

(c) Arrangements for the provision of Excluded Services are commercial in nature, and the obligations relating to disclosing what we earn do not apply to those arrangements.

6.5 Remuneration review

We will periodically review our remuneration arrangements to ensure they are not creating conflicts of interest.

7.0 MAKING A CLAIM AND RENEWING YOUR INSURANCE COVER

7.1 Claims management

(a) We will keep clients informed in a timely manner regarding the progress of their claim.

(b) When we receive an insurer's response to a submitted claim, we will notify clients of the outcome as soon as it is reasonably practical to do so.

(c) If a claim is unreasonably denied or reduced by the insurer, we will act as claims advocates on behalf of our clients to try to get the claim paid to the extent covered by the terms of engagement.

(d) We will advise clients if the insurer seeks to negotiate a settlement of their claim.

(e) We will seek our client's instructions before agreeing to any settlement or compromise of their claim.

(f) If the insurer declines to pay the client's claim, we will explain the reasons for the insurer's decision and outline what further steps can be taken, including steps to make a complaint.

(g) Where we act under a claim's authority from the insurer, which is relevant to the client's claim, and exercising that claims authority may be a conflict of interest, we will contact the client in a timely manner, engage with them, and take reasonable steps to ensure that the claim is managed in their best interests.

7.2 Policy renewal

(a) We will contact our client well before and at least fourteen (14) days prior to the client's insurance cover expiry date to engage them on the next steps to be taken prior to the expiry of the policy, in accordance with the terms of engagement.

(b) We will take appropriate, professional and timely steps to seek insurance cover terms and conditions and advise clients of available options (if any) for their consideration.

8.0 EMPLOYEES, AGENTS AND REPRESENTATIVES

8.1 Our responsibility

We are responsible for ensuring that our employees, agents and representatives comply with the Code when they are acting on our behalf.

8.2 Promoting the Code

(a) We will do the following to promote compliance with the Code:

(i) only allow our employees, agents and representatives to provide services that match their expertise, skills, and experience;

(ii) require all our employees, agents and representatives to receive appropriate education and training:

(A) to provide their services competently; and

(B) on the Code at least once every year.

(iii) have in place policies and procedures for our organisation and embed a culture that reflects the Code in the way we provide services and deal with others;

(iv) include obligations in our agreements with agents and representatives:

(A) to comply with the Code Principles and other provisions of the Code relevant to the services they are providing;

(B) to report on breaches or potential breaches of the Code within five (5) days of discovery; and

(C) to report to us immediately upon receiving a complaint about a breach of the Code.

(v) At least annually review the extent to which employees, agents and representatives are complying with the Code and take reasonable steps to improve compliance within our organisation, where appropriate.

9.0 WHEN THINGS GO WRONG

9.1 Making a complaint

(a) If a client, prospective client, named beneficiary, or another party interacting with a Code Subscriber while performing services for their client is unhappy about the provision of Covered Services or their interactions and dealings with a Code Subscriber, they should make a complaint (see Definitions). Complaints should be directed to the Code Subscriber in the first instance.

(b) We will publish, and make readily available, information about our internal dispute resolution processes and information for the Australian Financial Complaints Authority (**AFCA**).

9.2 Handling complaints

(a) Complaints will be handled by a person with the appropriate authority, knowledge and experience. All reasonable steps will be taken to ensure that the person whose conduct is the subject of the complaint will not handle the complaint.

(b) We will keep the complainant informed about the progress of their complaint at least every ten (10) business days and provide them with contact details for the person responsible for handling the complaint.

(c) Complaints first made after 1 November 2022 will be handled in accordance with section 9 of the Code, regardless of when services are provided.

9.3 Responding to complaints

(a) We will promptly acknowledge receipt of a complaint and provide information about our internal dispute resolution process and timeframes.

(b) When we have completed our investigation, unless clause 9.4(a) applies, we will provide the complainant with a written response, which will include:

(i) the outcome of our investigation of the complaint;

(ii) the reasons for our decisions;

(iii) any right to take the complaint to AFCA; and

(iv) information on how the complaint can be taken to AFCA if the complainant is not satisfied with our response.

(c) If it is identified that we have made a mistake in the handling of a complaint, we will take action to correct the mistake.

9.4 Timeframes for handling your complaint

(a) If a complaint is resolved to the satisfaction of the complainant within five (5) business days, we will provide written confirmation to the complainant to confirm this.

(b) We will resolve a complaint within thirty (30) calendar days from the date it is received.

(c) If we cannot make a decision within this timeframe, we will:

(i) contact the complainant in writing and provide reasons for the delay;

(ii) inform the complainant of their right to take the complaint to AFCA (if applicable) and provide the complainant with the contact details for AFCA; and

(iii) inform the complainant of their right to report alleged breaches of the Code to the Insurance Brokers Code Compliance Committee – see section 11 about reporting alleged breaches of the Code.

10.0 SUPPORTING CLIENTS EXPERIENCING VULNERABILITY

10.1 Identifying vulnerable clients

(a) We are committed to supporting clients who may be experiencing vulnerability.

(b) A person's vulnerability may be due to a range of factors including:

- (i) age;
- (ii) disability;
- (iii) mental health conditions;
- (iv) physical health conditions;
- (v) family and domestic violence;
- (vi) language and/or literacy barriers;
- (vii) cultural background;
- (viii) Aboriginal or Torres Strait Islander status;
- (ix) remote location;
- (x) financial distress; or
- (xi) other personal or financial circumstances causing significant detriment.

(c) We will do our best to identify any vulnerability. We encourage clients and potential clients to communicate with us and advise if they are experiencing vulnerability as we may not otherwise become aware of these circumstances if they are not disclosed to us.

10.2 Supporting vulnerable clients

(a) If a client or potential client tells us or we identify that due to a vulnerability, additional support or assistance is needed, we will work with them to try to find a suitable way to proceed. We will do this as early as practicable, whilst at all times respecting a person's right to privacy and self-advocacy.

(b) If we are advised or we identify that a client or potential client requires support from a third-party (eg. a lawyer, interpreter, or friend) we will make reasonable accommodations to allow for this.

(c) We will endeavour to make sure our processes are flexible enough to recognise the authority of a support person.

(d) We will have internal policies and training appropriate to our employees' roles to help them:

- (i) understand and recognise vulnerabilities;
- (ii) understand support options available to vulnerable persons and to what extent we can provide support;
- (iii) take account of a client's or potential client's particular needs or vulnerability; and
- (iv) engage a client or potential client with sensitivity, dignity, respect and compassion – this may include arranging additional support, for example by referring a client or potential client to people, or services, with specialist training and experience.

11.0

ENFORCEMENT OF THE CODE

NIBA has established an independent Code monitoring body, the Insurance **Brokers Code Compliance Committee** (**IBCCC**), to monitor and enforce Code Subscriber compliance with this Code.

11.1 Responsibilities of the IBCCC

(a) The IBCCC's constitution, functions and powers are set out in its Charter.

(b) In addition to its powers to enforce the Code, the IBCCC is responsible for:

- (i) providing guidance to the insurance broking industry about how to comply with the Code;
- (ii) identifying areas for improvement of insurance broking practices;
- (iii) monitoring the efficacy of the Code through investigations, collection and analysis of data and stakeholder engagement;
- (iv) providing reports to the NIBA Board and the public regarding industry data and consolidated analysis on Code compliance;
- (v) publishing breach decisions on a de-identified basis; and
- (vi) advising the Australian Securities and Investments Commission (ASIC) of decisions it deems appropriate or of the behaviour of a Code Subscriber that may be warranted.

11.2 Reporting breaches of the Code

(a) Anyone can report alleged breaches of the Code to the IBCCC.

(b) The IBCCC will review the allegations reported and make a decision about whether the allegations should be investigated further or referred to another body, and whether the Code has been breached.

(c) The IBCCC will advise the person reporting the breach and the relevant Code Subscriber of its decision and reasons in writing.

11.3 Imposing sanctions

(a) The IBCCC has the power to impose sanctions on a Code Subscriber for breaching the Code.

(b) When determining any sanction to be imposed, the IBCCC will consider:

(i) the appropriateness of the sanction, including taking into consideration whether the breach is widespread and how long the breach went undetected or was concealed;

(ii) the extent to which the Code Subscriber has made efforts to or has remedied the breach;

(iii) the loss or damage experienced by the client, as a result of the breach; and

(iv) any other relevant factors.

(c) The IBCCC may impose any one or more of the sanctions below on a Code Subscriber, if it determines the Code Subscriber has breached the Code.

(d) The IBCCC may direct a Code Subscriber found to be in breach of the Code to:

(i) take specific steps to rectify the breach within a timeframe;

(ii) undertake a Code compliance audit at the Code Subscriber's cost;

(iii) publish corrective advertising;

(iv) undertake to receive additional training or certification within a timeframe.

(e) The IBCCC may also sanction a Code Subscriber by:

(i) publishing the fact that a named Code Subscriber has breached the Code and details of the breach;

(ii) advising the Australian Securities and Investments Commission (ASIC) of the breach;

(iii) requesting the matter be referred to NIBA to be dealt with under applicable NIBA Member rules and regulations, and/or Code Subscriber membership rules that apply.

11.4 Working with the IBCCC

(a) NIBA will arrange for the IBCCC to be reasonably resourced to enable it to carry out its responsibilities in an effective way.

(b) Both NIBA and Code Subscribers will take all reasonable steps to cooperate with the IBCCC in its review of our compliance with the Code and its investigations of any breaches of the Code.

12.0 COMMITMENT TO THE CODE

12.1 Promoting the Code

(a) We will work with NIBA to promote the Code to clients, prospective clients and to insurance brokers that have not yet adopted the Code.

(b) We will promote the Code to our clients and prospective clients by:

- (i) providing every client with a copy of the Code, either hard copy or electronically prior to or at the point we are engaged by the client; and
- (ii) referring to the Code on our company website and in other promotional material.

(c) We will promote the Code within our organisation by:

- (i) including Code training materials as part of new employee induction materials;
- (ii) endeavouring to embed the Code Principles in our organisational goals and objectives, and decision making;
- (iii) having a governance process in place to report to our Board or Executive Management on our compliance with the Code; and
- (iv) supporting NIBA initiatives aimed at improving insurance broker competency, professionalism and embedding the Code in the industry.

12.2 Reviewing and improving

(a) NIBA will:

- (i) arrange for the Code to be independently reviewed at least every three (3) years from the date the Code comes into effect;
- (ii) without delay, review and amend any provision of the Code where it becomes apparent that an amendment is necessary to achieve the intended operation of the Code;
- (ii) develop guides to improve consumer understanding about the Code; and
- (iii) develop non-binding best practice guides to help Code Subscribers meet their obligations under the Code.

Definitions

Code Principles	The set of guiding principles that underpin the Code. See section 3.1.
“Code Subscriber”, “we”, “our”, “us”	Anyone who has entered into a formal agreement with NIBA to be bound by the Code.
Complaint	An expression of dissatisfaction made to a Code Subscriber related to its products, services, staff, or the handling of a complaint, where a response or resolution is explicitly or implicitly expected or legally required.
Covered Services	All services and activities a Code Subscriber engages in when arranging or advising on general insurance products or alternative risk transfer solutions on behalf of a client. This includes services and advice relating to claims handling, premium funding and risk management. See section 2.3.
Excluded Services	Arrangements with insurers and others to provide services and support in order to promote the efficient operation of the insurance market. See section 6.4.
Retail Client	As defined in the *Corporations Act 2001* (Cth). A Retail Client is an individual or small business (less than 20 employees or less than 100 employees if a manufacturer) who purchases a prescribed retail insurance product. The small business must purchase the insurance for use in connection with the business. A Retail Client is distinct from a Wholesale Client in the *Corporations Act 2001* (Cth).

Glossary

AFCA	The Australian Financial Complaints Authority. For information, visit **www.afca.org.au**
AFCA rules	The rules under which AFCA operates. For information see **www.afca.org.au/about-afca/rules-and-guidelines**
Alternative risk transfer solution	Risk financing solutions which serve as an alternative to or enhancement of conventional commercial insurance.
ASIC	Australian Securities and Investments Commission. For information visit **www.asic.gov.au**
Binder arrangement	An arrangement between an insurer and a third party (such as an insurance broker) which authorises the third party to perform certain functions for, and on behalf of, the insurer in connection with insurance policies issued by the insurer.
Contingent remuneration	Remuneration or other benefits paid by insurers that is contingent upon achieving certain criteria, such as: • the number of insurance contracts arranged; • the total amount of premium payable; • the total amount of sums insured; • the profitability of the portfolio.
Insurance Broker Code Compliance Committee (IBCCC)	The independent committee operating under the Code Procedures and Charter to monitor compliance with the Code that can, amongst other things, make binding determinations for a breach of the Code. For information, visit **www.insurancebrokerscode.com.au**
Overrider commission	Extra commissions paid by participating insurers for placement of a type of insurance, or for premium volume produced in a given geographic area, risk class, industry or category.
Personal advice	Under the *Corporations Act 2001*, 'personal advice' considers the Retail Client's objectives, financial situation and needs. Alternatively, it is advice where a 'reasonable person' might expect the adviser to have considered one or more of those things. 'General advice' is advice that is not personal advice.
Third-party beneficiary	A person or business that benefits from the terms of a contract made between two other parties. In law, a third-party beneficiary may have certain rights that can be enforced if the contract is not fulfilled.
Wholesale Client	A client who is not a Retail Client as defined in the *Corporations Act 2001* (Cth).

National Insurance Brokers Association (NIBA)

NIBA sets out to develop and promote high standards of professional practice for insurance brokers in Australia.

General enquiries (02) 9459 4300
If calling from overseas +61 2 9964 9400
Fax (02) 9964 9332
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NIBA
National Insurance Brokers Association.

The economic value of insurance broking

National Insurance Brokers Association

September 2020

Deloitte Access Economics


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Glossary

Term	Definition
Terms relating to insurance	
Risk management	This encompasses a range of services related to managing the risks to which a client might be exposed. It involves analysing all exposures to the possibility of loss and determining how to handle these exposures through such practices as avoidance, reducing the risk, retaining the risk, or transferring the risk.
Insurance	A device for transferring specified risks of individual persons to an insurer. The insurer agrees, for consideration (usually payment of a premium), to assume, to a specified extent, certain losses that may be suffered by the insured.
The insured	The party to an insurance arrangement to whom the insurer agrees to provide cover against specified losses, subject to the terms of the policy. The insured is the insurance broker's client.
Sum insured	The maximum value of the insurer's liability under an insurance contract.
Gross written premium	The total premiums on all policies written by an insurer during a specified period of time, regardless of what proportion has been earned.
Earned premium	Insurance policies usually run for a period of 12 months. An insured can cancel a policy at any time and request a refund of premium. Earned premium refers to only the portion of premium which corresponds to the actual elapsed time of the policy. That portion of premium yet to expire is termed unearned premium.
General insurance	General insurers underwrite insurance policies to cover individuals and businesses' financial loss associated with property, casualty, liability and other risks. General insurance can be split into commercial general insurance, and domestic (private) general insurance.
Premium	The price of insurance cover for a specified risk for a specified period of time
Underinsurance	A situation in which not enough insurance is held to cover the value of the insured property. This may be due to a sum insured which does not accurately reflect the value of the risk, a large number of policy exclusions or a poor match for the type of policy to the client's risk level.
Overinsurance	A situation where the insured party has purchased coverage for more than the actual value of the risk or replacement cost of the insured item.
Insured event	The incident or disaster that leads to the client's need to make a claim.
Terms relating to market players	
Intermediary	An agent or broker who assists a client in arranging insurance.
Intermediated insurance	Insurance arranged by an Australian Financial Services Licence (AFSL) holder. This includes both brokers (who are not aligned with insurers) and agents (who are sales representatives aligned with one or more insurers).
Insurance brokers	Brokers facilitate market matching between insurers and the client, providing insurance and risk management advice as well as claims advocacy services. Five large multinationals (e.g. Aon, Marsh), three Network groups (e.g. Steadfast), other individual sole-traders.
Clients	Businesses and individuals with various requirements for insurance coverage and risk mitigation. Clients range from large and mid-tier firms to SMEs and individuals.
Insurers	Work with brokers to develop and deliver the insurance policy, and aggregate and bear the risk. This includes APRA-authorised general insurers, Lloyd's underwriters.
Specialist claims adjuster	Businesses that investigate insurance claims to determine the existence and quantum of insurer's liability. Examples in the Australian market include ***Crawford*** and ***FAS Global***.

Term	Definition
Substitutes and alternatives to brokers	
Direct underwriters (insurers)	Insurance companies that go direct to market, selling policies to buyers without the use of intermediaries.
Online aggregators	Third party online policy aggregators and comparators, which collect and compare multiple prices and features in a single platform. Examples of these aggregators include ***iSelect***, ***Compare the Market, Canstar*** and ***Choosi***.
Agents	Businesses (often in non-insurance industries) who couple or 'up-sell' their product with an additional insurance policy. Agents include insurers business representatives (selling policies for a single insurance company, Banks and other financial institutions, car dealerships, affinity groups and others.
Underwriting agencies	Business that act like an insurance company as they develop products and handle claims. However, they are not directly APRA-regulated and do not necessarily have a large capital backing. Underwriting agencies typically provide specialised cover or professional cover, for example, professional indemnity, truck insurance, etc.

Source: National Insurance Brokers Association, Deloitte Access Economics

Executive summary

Summary of benefits

Value to clients

- **Quality of advisory service**: ranked as the number one factor by clients when choosing Insurance.
- **Tailored risk-management solutions**: 40% of clients are under insured or not insured at all, before engaging a broker (on average).
- **Greater choice**: the average NIBA broker offers products across over 10 different insurers.
- **Time savings**: saving each client an average of 11 hours, which equates to more than $230 million in time savings from business customers.
- **Claims support**: saving each client an average of 2.5 hours in the claims process, and where 41% of SME clients agree that it would otherwise have been 'much harder' to process.
- **Understanding and managing risks**: noting that brokers identified 62% of client had limited understanding of their risks.

Value to insurers

- **Saved resources**: saving each insurer an average of 3.3 hours, which equates to more than 1,380 FTE staff each year.
- **Product distribution and client reach**: 38% of broker premiums written for clients outside of Australia's capital cities.
- **Product innovation**: 13% of a broker's policies sold represent new market opportunities (on average), with `cyber risk' commonly identified.
- These benefits to insurers also reflect value for clients, in the form of saved time, increased choice, and access to more innovative and tailored products.

Value to the economy

- **Market efficiency**: reducing uncertainties for insurers and closing information gaps, which allow for more appropriate pricing and product matching, and encourage greater competition.
- **Risk management and economic stability**: to facilitate better product matching, faster claims receipts and provide broader risk advice.
- Brokerage businesses employed 15,000 FTE workers, and contributed $2.6 billion directly to the Australian economy (2018-19).

Value to government and broader society

- **Disaster relief, advocacy and policy advice**: supporting clients with claims preparation, assessment, lodgement and negotiation processes.
- **Helping to obtain Insurance solutions for difficult-to-insure clients.**
- **Supporting local communities**: surveyed brokerage businesses donated over $25,000 per year to charitable and other social causes, and volunteered more than 550 staff hours to charities and other organisations (on average).

Source: Deloitte Access Economics

Effective risk management and insurance – where the costs of substantial losses are shared among a large number of policy holders – are essential in a modern economy. However, insurance markets can be complex and difficult for the average individual or business to navigate. Insurance products can be highly detailed, and the risk needs of clients can be highly specific and varied. This means it is not always simple to determine what insurance is needed, to make comparisons between products available in the market and choose the appropriate cover.

Insurance brokers are licensed and specialist industry professionals that are not aligned with insurers, but act on behalf of their clients to provide risk management and risk placement services. Brokers help their clients to navigate the insurance lifecycle: from an initial risk assessment, to purchase, and then ongoing support to review, refresh and renew policies, as well as advocating for clients and managing claims in the unfortunate event of an incident.

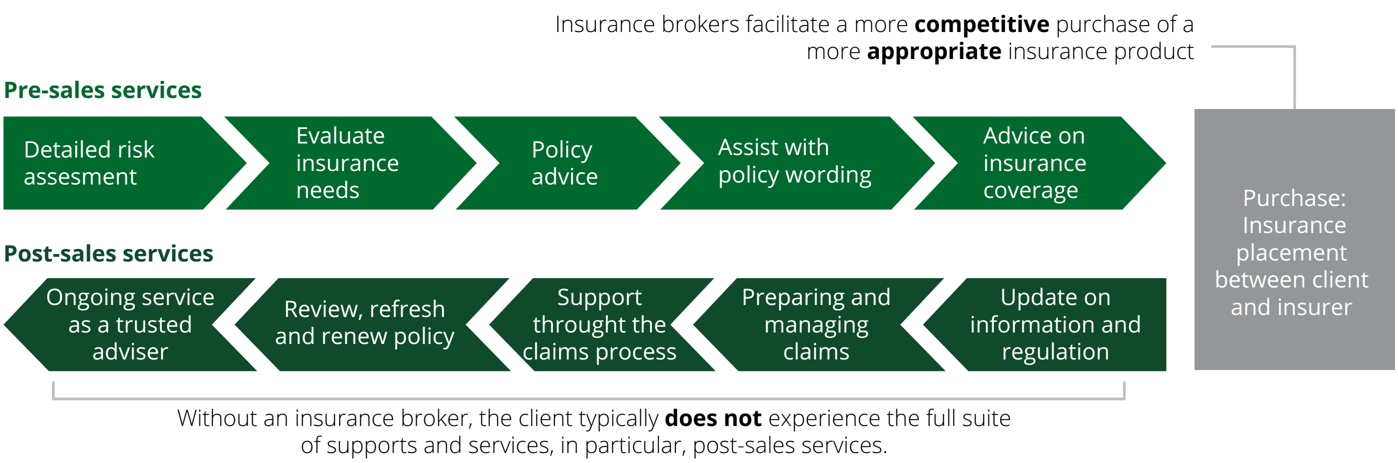
In 2019, intermediated insurance (by brokers and agents) represented almost half (47%) of gross written premium. This was facilitated by 1,662 intermediary licensees who employ multiple brokers. The five largest broker firms employed almost 7,700 full time broker employees.

The insurance broking industry, similar to the rest of the financial services sector, has been experiencing increasing scrutiny of its business model, by regulators, policy makers and the general public.

In light of this, the insurance broker peak body – the National Insurance Brokers Association of Australia (NIBA) – is seeking to ensure that this is an informed debate. Deloitte Access Economics has been engaged by NIBA to produce this research-based report on the economic value of the insurance broking industry. The report describes and quantifies the elements that comprise the industry's value: to customers, insurers, the economy, governments and broader society.

This report provides an evidence base of factual information about the industry, based on: publicly available information about the industry, a survey of individual brokers (421 respondents), a broker business survey (78 respondents), and consultations with three insurers (Zurich, Suncorp and QBE), two clients and one claim-management service provider. Like other financial services sectors, insurance broking is regulated by government policies that seek to influence market behaviour and minimise harms for consumers. This report is not an assessment of specific government policy interventions, current or future

Figure i: Client journey with a broker throughout the entire insurance lifecycle



Source: Deloitte Access Economics

Value to clients

Brokers bring expertise and experience: more than three quarters of surveyed brokers have over 10 years of experience as an insurance broker. Brokers aim to be trusted advisors, who advocate for their clients across the full insurance lifecycle (see Figure i). Their role is to match clients with appropriate insurance products. When asked about their newest client who had previously not used a broker, 90% said that their client previously had less appropriate insurance for their level of risk. This doesn't always equate to paying for more, it often involves clients paying less or about the same. Further, the advisory service was ranked the most important for choosing insurance by clients, and brokers are consistently more trusted by clients, relative to other financial institutions.

While not all clients may receive their preferred outcome or be fully satisfied with their broker services, on average, brokers can save clients considerable resources and provide them with a range of benefits. For many clients, these benefits outweigh the costs of broker services. In the six months to December 2019, 4,565 complaints made to the Australian Financial Complaints Authority regarding general insurance products were progressed to the 'case management' stage. Of these, only 1% (35) were complaints made against general insurance broker businesses.

Brokers can help save clients time and resources in navigating an otherwise complex sector. Brokers identified that a typical client would take an average of 11 hours to perform similar tasks in selecting and purchasing insurance, which a conservative estimate can be aggregated to over $230 million in value for business customers. Furthermore, brokers can access a much greater range of potential products and work with insurers to adjust policy wording to meet the specific needs of the client. Often brokers are engaged to facilitate more complex transactions to best align product details with client risk profiles. By managing claims, brokers can help to reduce stress for clients and help lead to more timely and comprehensive claim outcomes.

In the broader insurance market, brokers facilitate competition among insurers, which can increase choice and drive better outcomes for customers. Brokers also educate their clients on risk management processes, which can help to avoid incidents in the first place. Brokers stated that 62% of their clients on average had partial or very limited understanding of the risks they face before engaging them.

Value to insurers

Brokers can also help insurers with some aspects of their businesses. While brokers may reduce insurer margins (by increasing competition), many insurers rely heavily on brokers to distribute and market their products. They may also reduce risk for insurers themselves.

Brokers can support client reach on behalf of insurers, and reduce the costs of product distribution and administration, especially in regional areas (38% of broker premiums are outside of capital cities). Local brokers can be more efficient in capturing key information from and distributing product knowledge to local communities. On average, brokers estimated that it would take insurers an additional 3.3 hours to accurately assess and process a potential customer.

As part of information gathering, brokers can support better matching between insurer products to client risk needs. This information gathering can be costly for insurers to undertake, or would otherwise expose insurers to higher risks. Greater market information allows insurers to better design and price their products, and supports greater efficiency among the broader market. Insurers identified that this ability to efficiently and effectively find customers and assess their risk profiles is a key value of using brokers, and what continues to differentiate them from other services, such as online aggregator tools.

Furthermore, brokers can support insurers by helping to identify new and emerging risks and insurance needs, and support insurer innovation and adaptation to changing market conditions. For example, 'cyber risk' was identified by 63% of brokers as an example of an emerging risk policy they facilitated in 2019.

As with any distribution channel, brokers represent a cost to insurers via commissions and where insurer sale margins may be reduced from further market competition. However, brokers also bring value to insurers – in particular, by supporting the distribution and tailoring of complex products, and supporting insurers to more confidently assess client risks. This is reflected by an increasing usage of brokers over time to manages product sales.

Value to the economy

Insurance broking is a significant industry in and of itself. They are businesses that collectively contributed nearly $2.6 billion in gross value added (GVA) to the Australian economy in 2018-19 and directly employed almost 15,000 full-time equivalent (FTE) workers. Further support for other industries (through purchases from suppliers) amounted to nearly $900 million in indirect GVA and supported over 5,000 FTE workers in other businesses.

As a point of reference, these direct economic contributions are roughly equivalent to the economic activity in each of the, gas supply, and creative arts industries in Australia. While not specifically counted in the 'value added', insurance brokers collect taxes for different levels of government. These include the emergency services levy, stamp duty and goods and services tax.

As a market intermediary, brokers facilitate better risk management outcomes and more efficient insurance markets – where risks are borne by those at lowest cost and informed insurers and customers can engage in insurance transactions with appropriate pricing of, access to, and levels and types of coverage. This supports greater competition and resilience in insurance markets, which supports economic stability.

The prevalence of broker use throughout the economy and across all types and sizes of businesses speaks to the value that organisations place in them.

Value to the government and broader society

As part of their core services offerings – guiding clients to more appropriate insurance, supporting with claims, and assisting with risk management – brokers can help businesses to recover more quickly from incidents (and/or avoid them in the first place), and help local economies and communities recover more quickly.

More rapid recovery for local businesses and communities is particularly important during natural disasters and other larger scale incidents, when brokers can act as advocates to ensure appropriate and timely release of claims payments. This helps to build resilience and support recovery for local economies and communities, and can also save government resources, where more businesses and communities are appropriately covered.

Brokers also support their local communities by providing broader education on risks and risk management, as well as directly contributing to local events and fundraising.

Among surveyed brokerage businesses, each contributed an average of $25,000 to charitable causes, $20,000 to local communities and over 550 staff hours of volunteering for social causes each year.

1. Introduction

Brokers play a key role in the market for general insurance in Australia. They support clients to navigate a complex market, provide insurers with an effective product distribution channel. Brokers facilitate a more efficient insurance market, which supports risk management and economic recovery across society.

1.1 Motivation

The insurance broking sector, like the rest of the financial services sector, is experiencing increased scrutiny of its business model. For example, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry recommended reviewing broker commissions in three years (in 2022), although the Government may seek to change remuneration practices before this.

Meanwhile, many of the key regulatory decisions that will shape the future of the insurance broking landscape will be made by Government based on the likely economic costs and benefits of change. Against this background, the National Insurance Brokers Association (NIBA) engaged Deloitte Access Economics to build an evidence base for valuing the economic impact of the insurance broking sector.

The report is designed to inform discussions with policy makers, improve understanding of the profession in the community and assist NIBA members with their strategic planning. More specifically, this report seeks to describe the elements that comprise the industry's value – to customers, insurers, the economy, governments and broader society – and quantify that value.

In producing this report, it is noted that, like other financial services sectors, insurance broking is regulated by government policies that seek to influence market behaviour and minimise harm for consumers. This report is not an assessment of specific government policy interventions, current or future.

1.2 The insurance broking ecosystem

1.2.1 The general insurance market

The market for insurance in Australia is made up of four main components: life insurance, general insurance, health insurance and travel insurance. This report focuses on the role of insurance brokerage businesses within general insurance lines. The broking of general insurance is estimated to account for 47.5% of all insurance broking industry revenue (the remaining components of industry revenue relate to life insurance (42%) and health insurance and other services (10.5%).[1]

General insurers underwrite insurance policies to cover individuals and businesses' financial loss associated with property, casualty, liability and other risks. There are two segments of the general insurance market:

- **Commercial general insurance**, which includes policies for fire and industrial special risks (ISR), public liability, professional indemnity, and commercial motor insurance.
- **Domestic (private) general insurance**, which is predominantly made up of household and car insurance policies.

In the year to December 2019, the general insurance industry wrote $50.2 billion in gross written premium (GWP), including reinsurance.[2] As at 30 June 2019, there were 1,662 intermediaries licensed to conduct general insurance business – this includes both brokers (who are not aligned with an insurer) and agents (who work exclusively for one or more insurers).[3] There are far more individual brokers in the market than there are Australian Financial Services Licence (AFSL) holders, given that many brokers act as authorised representatives of a licence holder. The five large insurance brokers surveyed reported that they employed just under 7,700 FTE broker employees.

The broker acts as an intermediary between the insurer and their client, the 'insured'. By facilitating trade between their clients and insurers, insurance brokers:

- Reduce search and matching costs for clients and insurers
- Reduce adverse selection in the insurance market
- Reduce instances where clients are under- or over-insured for their level of risk
- Allow economies of scale to be realised.

1.2.2 The role of the broker

Insurance markets can often be complex and difficult for the average client (individual or business) to navigate. Insurance products are highly detailed and specific, and it is not simple to make perfect comparisons between similar products from different insurers.

Insurance brokers are licensed industry professionals who may work as part of a brokerage firm, or as sole traders. They are not employed by insurers, although they do earn commissions from policies placed. Brokers compete with insurance agents and online aggregators to link clients to insurers – but unlike these other agents, brokers act for the client rather than the insurer.

According to NIBA, the role of the broker is:
"*to discuss with the client the nature of their risks, give some advice where appropriate on the management and mitigation of those risks, work with the client to identify appropriate insurance coverage for those risks and ultimately, negotiate coverage to the market. [If] a claim is to be pursued, the broker then assists the client with the pursuit of the claim to the insurer and the resolution of the claim*".[4]

Brokers provide value to their clients, to insurers, and the economy and society more broadly:

- **For clients**: Brokers facilitate the purchase of appropriate insurance on behalf of their client (the customer), and provide support throughout the insurance lifecycle. This includes providing general risk advice and claims advocacy services.
- **For insurers**: Brokers support insurers to distribute products efficiently and effectively. Insurers use brokers to minimise their product distribution and tailoring costs, access a greater range of clients, and support product innovation.
- **For the economy**: Broker's facilitation of insurance sales results in greater choice and competition in the insurance market, and more appropriate purchasing of insurance (i.e. reducing underinsurance or overinsurance), which promotes more efficient market outcomes.
- **For government and broker society**: Brokers support society to guard against risks, and manage the placement of risks between the client, the insurer and the government. In the absence of risk solutions provided by brokers, these incidents would take far longer for the economy to recover from, and there would be a greater cost borne by government.

Access to the appropriate insurance coverage is important for individuals and businesses, and brokers help to facilitate this. While the number of customer complaints is very low (see Section 2.1.6), there likely remains an important role for the regulator to ensure that customer rights are protected and that any spurious broker activity is appropriately monitored, identified and controlled.

This report uses the language 'client' throughout, to refer to the purchaser or consumer of insurance. 'Client' reflects the perspective of the insurance broker and the ongoing relationships between brokers and the insured. The terms insurance 'customer' or 'the insured' can be used to consider those who purchase insurance through any channel. These terms can describe a 'consumer' in the economic sense. Notably, in understanding the economic value generated by market players, the client, consumer and purchaser are considered interchangeable.

1.2.3 Distribution channels and key players in the market

Insurers supply insurance across different policy lines, under many different brand names and through multiple channels. These distribution channels include:

- Direct sales to customers
- Through an insurer intermediary such as an agent or distributor
- Through an insurance broker, and
- Following referrals to the insurer from other entities including comparison websites.[5]

In a market where products are sold directly, clients must negotiate directly with insurers to arrange coverage. The client will need to assess their risk levels and coverage needs themselves, and will be limited to the products which are offered by the insurer through the direct channel.

In a market where insurers distribute their products through agents (brand representatives), the client will work directly with the agent to arrange coverage to suit their needs. This may provide greater opportunity for products to be customised, though the client will need to engage with one agent, for each insurer they approach. When insurers distribute via agents, they generally do so under a 'general advice' model, where the information provided by the agent does not take into account the specific circumstances and needs of the client.

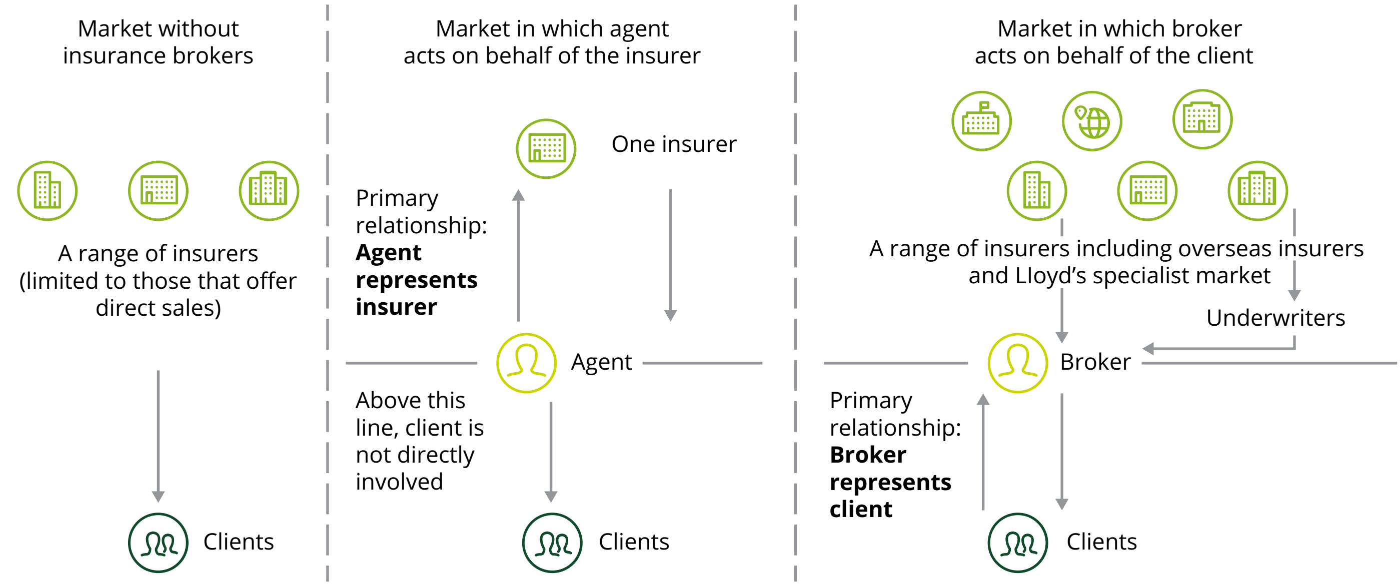
In a market where insurers distribute their products through brokers, the client will communicate with the broker, who will negotiate with the insurer to arrange the coverage. The broker has access to a range of insurers' offerings, and may use an aggregation system to make comparisons for the client on which insurers policy and price is best suited to their client. Insurance brokers are contracted with multiple insurance companies in order to efficiently negotiate quotations and place coverage for their clients.[6]

Brokers also offer clients personalised service and ongoing policy review and claims support. A key distinction is that brokers work to represent their clients interests in the market, rather than representing the insurer.

As at March 2020, it is estimated 47% of GWP was arranged by brokers written by Australian authorised insurers was arranged by brokers.[7] Outside of this, brokers place additional premiums with specialist overseas-based insurers, including Lloyds underwriters.

The different sales channels available to an insurer, and the role of the client and the intermediary in this process are illustrated in Figure 1.1. The directions in this figure represent flows of information, rather than finance. Generally, the client will pay for their insurance via the broker, who passes on the amount they have legally collected on behalf of the insurer, and retains a commission. In some cases, a broker fee may also be paid directly from the client.[8]

Figure 1.1: Distribution channels across the insurance ecosystem



Source: Deloitte Access Economics

1.2.4 The client journey

The client journey for insurance typically begins with the choice of using an insurance broker, online aggregator, agent or undertaking a direct purchase from an insurer. Figure 1.2 illustrates the pre- and post-sales services and activities facilitated for clients that use insurance brokers.

Customers who purchase insurance through other channels are typically provided with fewer pre- and post-sale services, and often at reduced depth and limited tailoring to the precise needs of the customer. For example, customers may only experience a limited general risk assessment and be provided a more 'off-the-shelf' as opposed to customised policy when making a direct purchase. Customers who approach an insurer directly will not gain the benefit of a broker's skilful assessment of a range of product offerings, or their ongoing advocacy.

1.3 Primary data collection

To inform the findings of this report, a range of primary research has been undertaken. This includes fielding surveys, consultations with insurance brokers, their clients and insurers, a review of publicly available and confidentially provided data sources.

Three surveys were fielded:

- Individual brokers (all NIBA members) were surveyed about their professional profile and the characterises of their clients.
- Brokerage businesses (represented by one NIBA member per business) were surveyed about their role working with clients and insurers in the market, as well as their engagement with the local community more broadly.
- The six largest insurance broking businesses were surveyed about their financial metrics, staffing and operating revenues, in order to inform the economic contribution analysis.

Consultations were also undertaken with

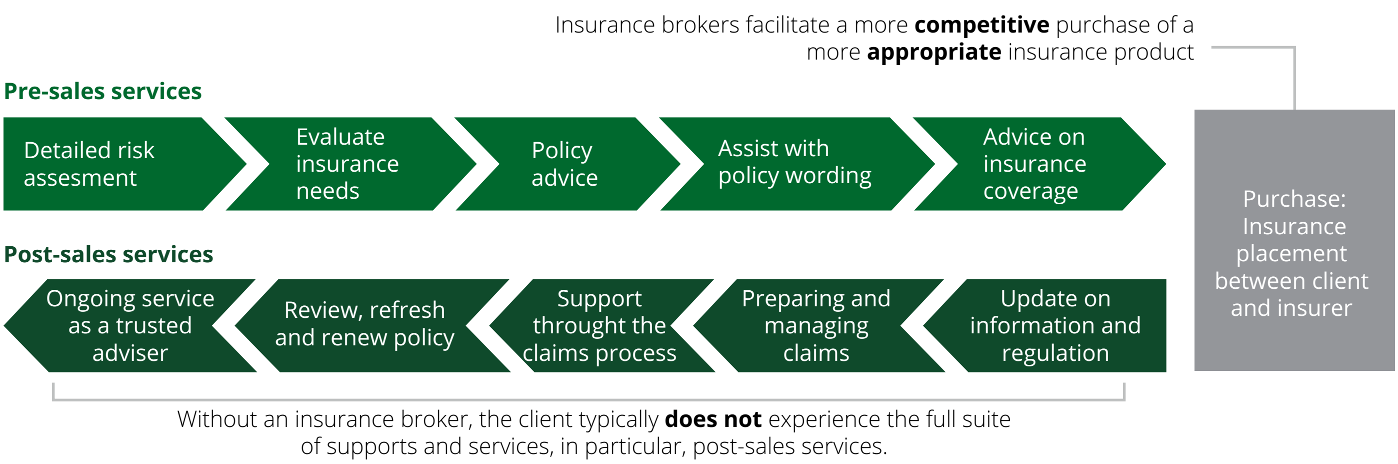
- Senior staff at insurance companies that use brokers exclusively, or in combinations with proprietary channels – Suncorp, QBE Insurance and Zurich.
- Two small business clients who use a broker to arrange some or all of the insurance for their small business.
- Representatives from LMIGroup – an organisation which provides claims management, legal, policy review and risk analysis services to both brokers and insurers.

1.4 Structure of this report

The remainder of this report is structured as follows:

- Chapter 2 considers the value which insurance brokers bring to their **clients**. This includes brokers' role in facilitating market access and choice for clients, providing risk advice services, and acting as an advocate for clients as they navigate the insurance market.
- Chapter 3 outlines the value which brokers bring to **insurers**. This includes providing a cost-efficient distribution channel for insurers' products, and helping insurers to reach and understand their clients.
- Chapter 4 outlines the value of brokers to the **economy**. This includes the role of brokers in improving the efficiency of the insurance market and in supporting economic stability through risk management. This section quantifies the industry's significant direct and indirect contribution through their operations.
- Chapter 5 considers the value of brokers to the **government and society**. This includes the role brokers play in disaster recovery and risk resilience, and the contribution brokers make to the local communities they operate in.

Figure 1.2: Client journey in the insurance ecosystem, when using a broker



Source: Deloitte Access Economics

Box 1: Survey data used in this report

As part of the primary research undertaken in this report, Deloitte Access Economics fielded two surveys of NIBA's membership base.

A survey of individual brokers asked brokers to:

- Describe their professional profile, including the area they work, their level of experience and their professional qualifications, and
- Reflect on their interactions with clients, and their clients' risk profiles and coverage.

The total number of responses to this survey was 421, a response rate of 11% of 3,914 NIBA members.

A more extensive survey of brokerage business which asked a representative of each business about:

- The business profile, including the location they operate and the areas they service
- The type and value of gross written premium they arrange
- The role of a broker in supporting a client in the insurance market
- Their role in working with insurers to distribute products, and
- Ways their business engages with the local community.

This survey was sent to a representative of each 'principal member' of NIBA. Principal members of NIBA are companies, trusts, partnerships or sole traders working in insurance brokerage. The total number of responses to this survey was 78, reflecting a response rate of 25% of the 321 NIBA principals who were asked to participate (some brokerages have multiple principal members who were excluded to avoid duplication).

Box 2: Consultations with broker clients

As part of the primary research undertaken in this report, Deloitte Access Economics consulted with two small business clients who use a broker to arrange some or all of their insurance. The clients were referred by insurance brokers associated with NIBA. Consultations intended to specifically target clients who:

- Operated businesses in regional area or outside of capital cities
- Had recent experience in making a claim against their policy, and
- Had a portfolio of insurance products for a range of risks.

Findings from these consultations may not represent the views of all broker clients, and are intended to provide examples of clients' experiences with brokers across the client journey.

2. Value to clients

Insurance broker's clients range from individuals and small business owners to large corporate and multinational firms. The services involve the following:

1. **Brokers can build personal, trusting relationships with clients**. Unlike insurers' agents, brokers are not aligned to insurers and rather, advocate for their clients' interests. Across a range of measures, brokers are found to offer a higher-quality service and a better product fit for their clients than insurer-aligned agents.[9]
2. **Brokers can provide clients with tailored risk-management solutions**. On average, 40% of clients are underinsured or not insured at all, before engaging a broker.[10]
3. **Brokers facilitate competition in the insurance market, supporting client choice**. When asked about their newest client who had not previously used a broker, 90% said that their client previously had an inappropriate level of insurance for their level of risk.[10] While only 1% of brokers' new clients were overinsured prior to engaging broker, 33% of clients were previously paying more on their insurance policy before they engaged broker. Brokers also support clients in accessing a greater number of policies and insurers – in 2019, the average NIBA broker member placed business with more than 10 different insurers.[11]
4. **Clients can save resources by engaging brokers to navigate a complex sector**. In assessing the client's risk, comparing insurer offerings, applying for cover and completing an annual review, a broker saves a client an average of 11 hours.[10] Based on a standard measure, this is estimated to save the client almost $300 per annum in the value of time saved. This equates to more than $230 million in total value per annum across all business customers.[12] Additional savings would be expected for clients on other policy types sold by brokers.
5. **Brokers can support clients in making insurance claims**. On average, brokers estimate that they save clients 2.5 hours during the claims process, with 41% of SME clients agreeing that their claims process would have been 'much harder' without the support of a broker.[10]
6. **Brokers can educate their clients to manage and avoid risks**. This supports clients' confidence in their risk management processes. Providing this confidence is important given that brokers believe 62% of clients have a partial or very limited understanding of the extent of the risks they face.[10]

Brokers bring clients a range of benefits. As in any market, not all clients receive their preferred outcome and may not always be fully satisfied with their brokers. However, the findings of this report suggest that, on balance, clients report that they receive a valuable service from their brokers. While brokers charge a commission or service fee, which represents a cost to clients, findings suggest that for many clients, the benefits outweigh these costs. This chapter seeks to identify and assess the benefits to clients of working with brokers.

The role of brokers is to support clients to engage in the insurance market more effectively. Clients can use brokers to gain information, enabling greater breadth of access to the market. Clients can receive support to select more appropriate products to match their risk profiles.

2.1 Building relationships with clients

An important component of the value that clients receive from engaging a broker is the service quality associated with an ongoing professional relationship. These relationships benefit clients in a range of ways. Clients:

- Receive a quality service from a broker who can understand their unique needs
- Can benefit from working with brokers who are aligned with clients, rather than insurers
- Can benefit from relationships with brokers who provide local services within their regions
- Can benefit from brokers' expertise in navigating the insurance market
- Have greater confidence in their insurance coverage and risk management approaches when using a broker, and
- Report higher satisfaction with their insurance coverage and their service quality when using a broker.

2.1.1 Quality of service

Clients place a high value on their brokers' service quality, and see brokers as their advocate in the market. While only 30% of surveyed brokers collected net promoter scores from their clients, the average satisfaction rating from clients was 9 out of 10.[13]

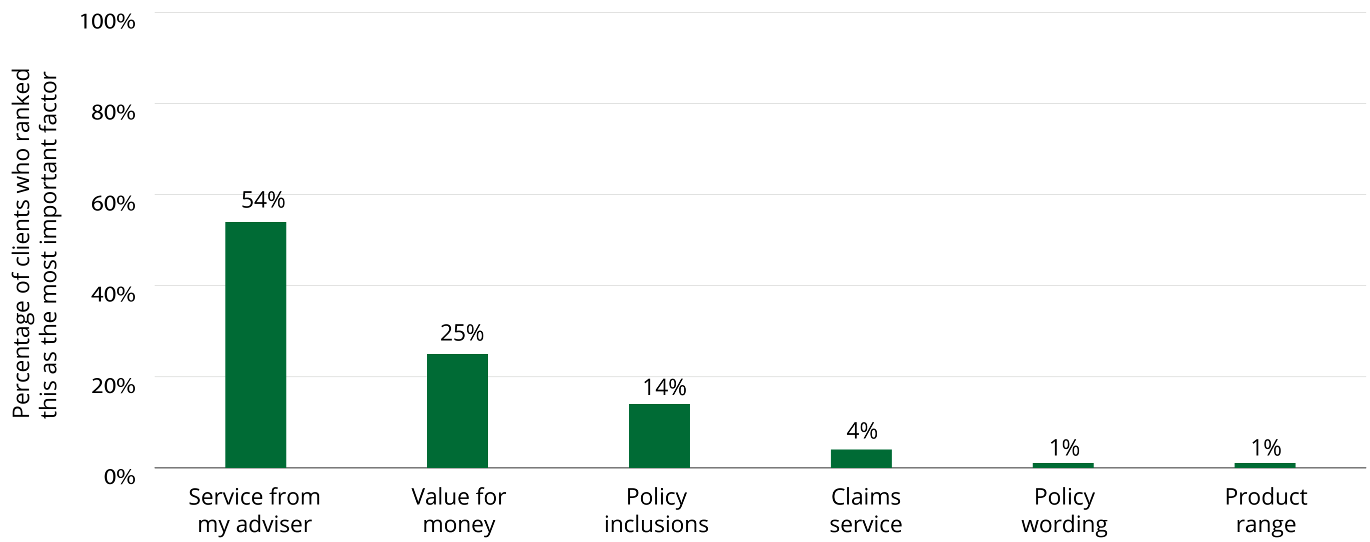
In a survey of one insurance brokerage's client base, 54% of clients ranked 'service from my adviser' as the single most important factor when choosing insurance, compared with the characteristics of their coverage or policy (Chart 2.1). Importantly, some client's understanding of a brokers 'service' could also include their support in policy tailoring, claims services, and in accessing products (other factors identified in Chart 2.1).

This level of trust in brokers was expressed in consultations with SME clients:

"They look after our best interests in areas we don't understand, where we are not specialists."

(Ros Stewart, small business owner)

Chart 2.1: Most important factors when choosing insurance, as ranked by clients



Source: Insurance Advisernet, Brand Advocacy 2019: Quantitative research debrief (May 2019)
Note: n= 1,702.

2.1.2 Client interests

Brokers bring value to their clients by representing their clients' interests and advocating for them in the insurance process. An insurance broker has a legal and professional duty to serve their client, the insured. While a broker has a legal obligation to act in good faith to the insurer, the broker's role is to support the best interests of their client and they are accountable to the client (not the insurer) for quality of the advice and service they provide.[14]

Academic studies have considered the value of an intermediary whose focus is on their client outcomes, comparing outcomes for intermediaries that work with a range of insurers and those who are intermediaries that work exclusively for one insurer. One study analysed data from 3,500 'independent' and 'exclusive' German insurance intermediaries to assess differences in service quality between these intermediary types.[15] In the Australian context, this might be understood as comparing the outcomes of brokers (who are not aligned with insurers) and agents (who exclusively work with a single insurer to facilitate direct sales). The study found that across a range of measures, 'independent' intermediaries (brokers) were found to provide a higher quality service. The study found that brokers:

- Spend more of their working time on gathering information than agents. This could be interpreted as offering a 'higher level of service intensity' in comparing products, given that brokers can access information about a greater range of products from a number of insurers.
- Place higher importance on information from external rating agencies (these agencies provide a comparison of different insurance firms and products).
- Be more likely to make records after a client interview, especially where their client seeks a greater range of products, or more complex products.
- Realise a higher contract conclusion rate and a lower lapse rate for some insurance products. This suggests that a broker has the ability to compare a greater number of product options in order to better tailor a product to their client's needs, whereas an agent is limited only to the options offered by one insurer.

These findings suggest that brokers incentives are more aligned with the needs of the client that insurers' direct sales agents.

2.1.3 Face to face services in metro and regional areas

A key component of clients' trust in brokers is that they provide a local and personalised service. Broker businesses are spread across Australia. Brokerages have office headquarters in every state and territory and their brokers operate offices across a greater range of regions.[16] The usual office locations of brokers are set out in Figure 2.1.

The value of brokers' local service to regional areas was noted by clients. Grace Zatta operates a farm and rents out residential properties in North Queensland, and purchases most of her insurance through a broker in her area. She explained:

"The benefit of using a North Queensland broker is that they are familiar with the region, and have asked questions about the exact location and physical environment".

(Grace Zatta, small business owner)

A local broker can understand the specific risks associated with the region. Grace highlighted the value of engaging a local broker to assist in arranging flood cover, as they understood the policy context and the clients' level of risk.[17]

Figure 2.1: Location of brokers across Australia

Source: Deloitte Access Economics, Broker Survey (2020)
Note: n=421. Brokers were asked, 'Where is your usual office located?'

2.1.4 Expertise and experience

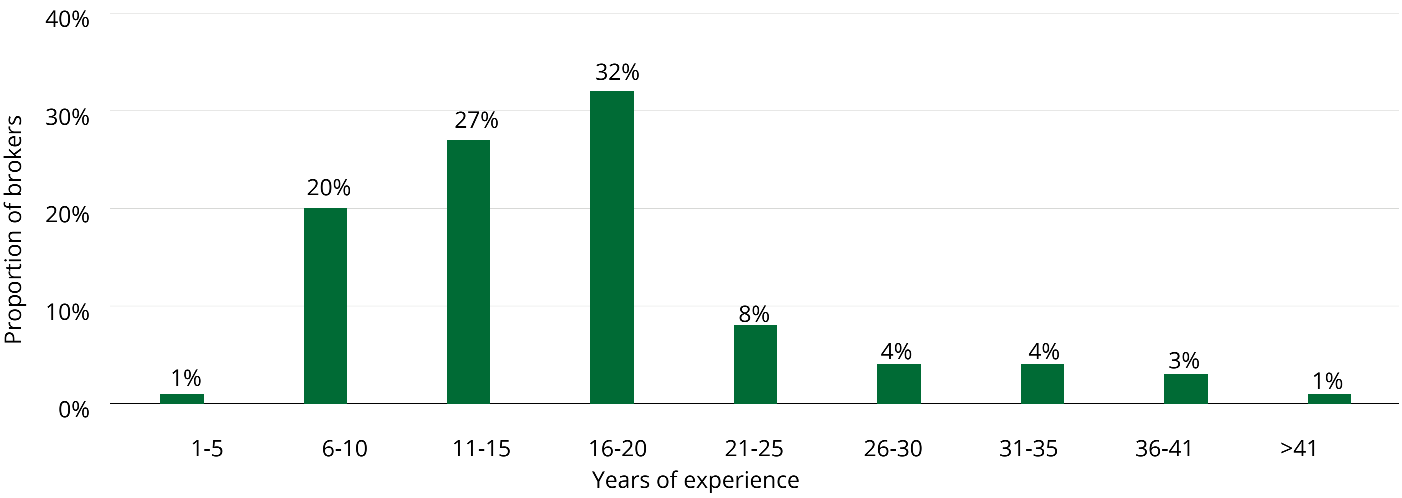
Insurance brokers have highly specific qualifications and accreditations, and bring value to clients through their experience working in the insurance broking industry.

More than three quarters (79%) of surveyed brokers had more than 10 years of experience working as an insurance broker (Chart 2.2).[18] A caveat of this finding is that surveyed brokers were NIBA members, who have either a complete or partial qualification, and are employed by or working as an AFSL holder. While it is expected that this subset of more qualified brokers will naturally be more experienced, these results still support the expertise and experience of brokers within the industry.[19]

All insurance brokers providing advice and assistance to clients must hold 'Tier 1' or 'Tier 2' qualifications prescribed by ASIC Regulatory Guide 146. A survey of NIBA members found that many brokers also hold additional qualifications – as noted above, this may reflect only a subset of the industry that may naturally be more qualified.

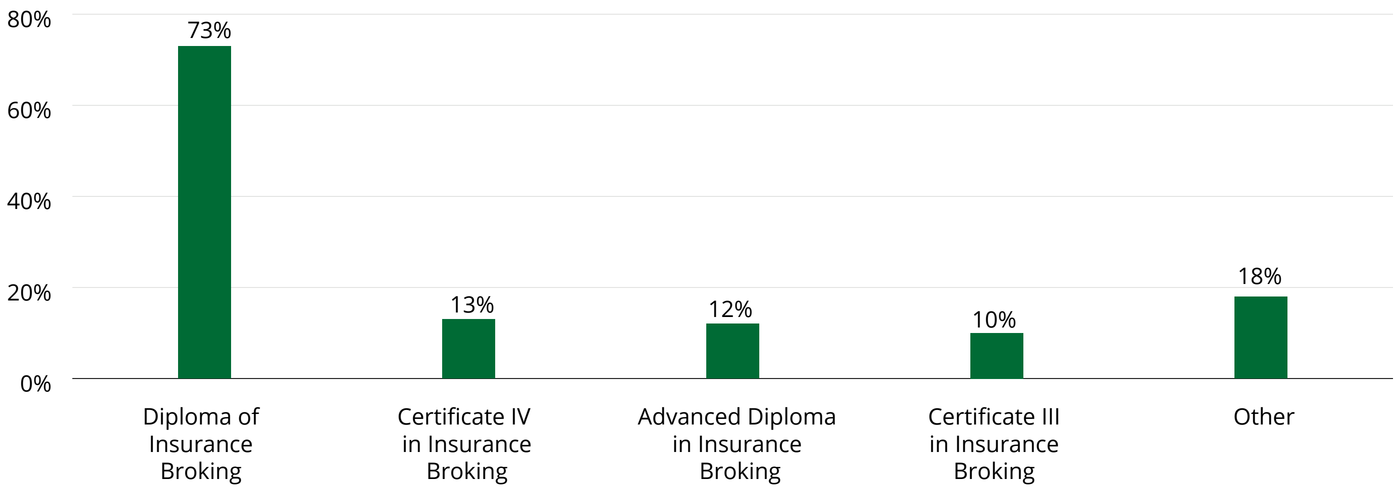
All practicing insurance brokers held a qualification related to their work. The majority of surveyed brokers (73%) held a Diploma in Insurance Broking (Chart 2.3).[20]Many brokers had multiple related qualifications, while 18% of respondents held other credentials such as higher education qualifications in insurance, commerce and financial services, and/or professional qualifications awarded by the Australian and New Zealand Institute of Insurance and Finance (ANZIIF).[20]

Chart 2.2: Years of experience, surveyed brokers



Source: Deloitte Access Economics, Broker Survey (2020)
Note: n=421. Single response.

Chart 2.3: Qualifications related to insurance broking, surveyed brokers



Source: Deloitte Access Economics, Broker Survey (2020)
Note: n=421, multiple responses allowed. Respondents were asked, 'Which qualifications do you hold that are directly related to insurance broking?'

More than three-quarters (79%) of brokers held NIBA membership at the level of 'Qualified Practicing Insurance Broker' (QPIB). QPIB accredited members must hold a Diploma of Financial Services (insurance broking) or equivalent; have a minimum of four years' experience as an insurance broker; and participate in 25 hours of continuing professional development each year. Brokers who are not QPIB accredited may hold another NIBA accreditation, including those in non-insurance financial services roles, emerging brokers who are still completing qualifications, or senior brokers who work in a general advisory or research capacity.[21]

Brokers are also members of broker networks (Chart 2.4). The insurance broking market is predominately made up of many small enterprises. Networks provide brokers with access to the benefits associated with a larger scale business, without aligning themselves to an insurer. Networks provide brokers access to a broader professional network for knowledge sharing, and offer opportunities for professional development and training. Some networks also offer operational support to brokers, such as systems for client management, data entry and claims lodgement. Network-alignment allows brokers to better service their clients, by supporting their continuing professional development and providing operational support to ensure brokers' service quality.

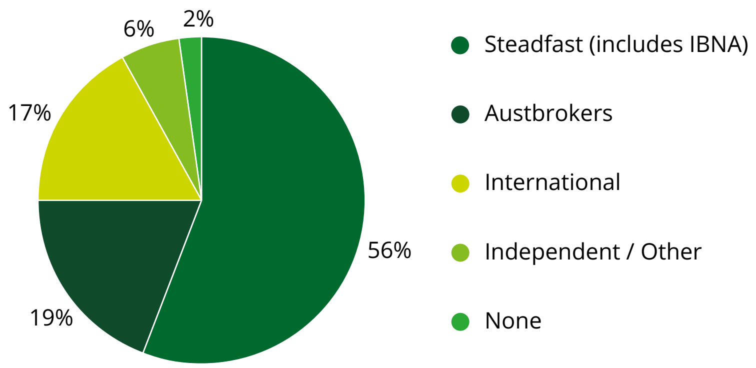
Box 3: The role of broker networks

The insurance broker market in Australia is predominantly made up of hundreds of small, privately owned brokerages. However, many of these small businesses join an insurance broker network, to access the benefits of size and scale.[22] There are two main broker member groups which dominate the Australian insurance broker market – Steadfast, which has recently merged with the Independent Brokers Network of Australia (IBNA), and Austbrokers.

Many brokers join an insurance broker network, in order to realise the benefits of size and scale.[23] Networks provide brokers with enhanced buying power and scale which allows them to better negotiate policy terms and conditions with insurers. This supports greater choice for clients, as brokers work with their network to access customised and tailored products.

Brokers' alignment to a professional network also benefits the insurer. Networks represent a single point of contact for an insurer to access a large distribution channel in a fragmented market. Brokers use networks to share product and insurer information and to negotiate policy terms, creating an efficiency for the insurer by reducing the number of points of contact from individual brokers.

Chart 2.4: Network associations of brokers, surveyed brokers



Source: Deloitte Access Economics, Broker Survey (2020)
Note: n=421. Single response.

2.1.5 Client confidence

Brokers bring value to clients by helping them to understand the risks they are exposed to, and emerging areas of risk for their clients' business. In particular, brokers can explain in advance the consequences of underinsurance and the impact of policy exclusions. The expertise was noted by clients in consultations:

"Their service is worth paying for. People don't understand the risks of going to the standard, cheapest policy – they might have saved, but they didn't know what they were covered for."

(Grace Zatta, small business owner)

Consultees reiterated the value of an insurance broker in helping them to understand the often major implications of minor differences in policy wording. Brokers communicate detailed aspects of policies to clients during the coverage selection process, including limits of claims that can be made under each product. When their broker recommends changes to the coverage which increase the premium, the client is confident that they are paying for greater coverage and certainty in the claims process.

Brokerage firm Insurance Advisernet found that 64% of their clients felt very confident, and 32% somewhat confident that they have the right level of insurance.[24] Clients' confidence in their level of cover could be driven by their confidence in their broker.

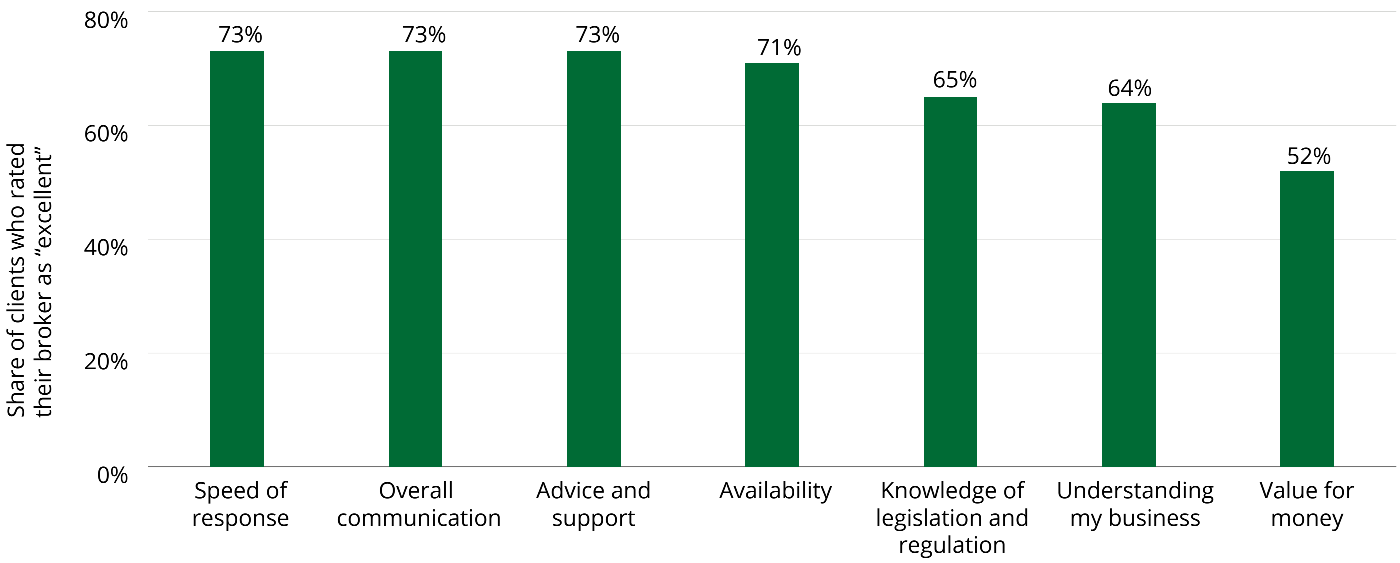
The overwhelming majority of Insurance Advisernet's clients (73%) rated their brokers advice and support as 'excellent'.[24] By comparison, 57% of mortgage brokers clients rated the effort they received from their broker as 8 out of 10 or above (with 0 being poor, 5 average and 10 exceeded expectations).[25]

Brokers clients also recognised their brokers' 'excellent' understanding of their business and knowledge of legislation and regulation, and their quality and support (Chart 2.5). These positive ratings support clients' trust in brokers.

The brokerage's clients ranked their brokers highly (9 out of 10) in terms of trustworthiness.[26] This level of trust is notable when compared to individuals' level of trust in institutions – only around 5 in every 10 individuals are prepared to transfer their personal data only to an institution they trust.[27] This suggests the value of a broker in bridging relationship between clients and institutions – that clients see brokers as their advocate.

Analysis of the level of trust in the financial sector suggests that brokers and advisors are more trusted than financial institutions. Researchers in the UK developed a database of individuals' trust in financial services providers, using regular surveys of the general public over a five-year time period. Individuals were asked about their cognitive, or base-level trust (relating to competence, honesty and reliability of each institution) and their higher-level trust (relating to whether individuals consider these institutions to act in their best interests).

Chart 2.5: Clients' rating of their brokers' service, share of 'excellent' rating in each category



Source: Insurance Advisernet (2019)[26]
Note: n= 1,702. No other survey responses are reported.

Survey findings were used to construct a 2014 trust index to compare consumer ratings of different types of financial services providers (Chart 2.6). It shows the highest trust performance among the 'Broker-Adviser' group, which was also significantly higher than insurance companies. This 2014 trend is typical of the longer-term results from the five-year survey database. While these findings reflect more general perceptions of each industry (as opposed to personal experiences), the study does support higher levels of trust and confidence among brokers, relative to other groups in financial services.[28]

A survey of SME owners found that those who are satisfied with their insurance broker are more confident in their risk preparedness: 59% of all broker users and 69% of satisfied broker users feel confident, compared to 56% of all surveyed businesses.[29] These findings support the notion that clients who have higher levels of confidence in their risk preparedness, may have higher levels of trust in their broker to have arranged appropriate cover.

Clients seek brokers' support in understanding and optimising the extent of their cover.

"The downside of insurance is that you do not know what you will be covered for unless you read the fine print, and that you do not fully know what cover you need, until you have to make a claim".

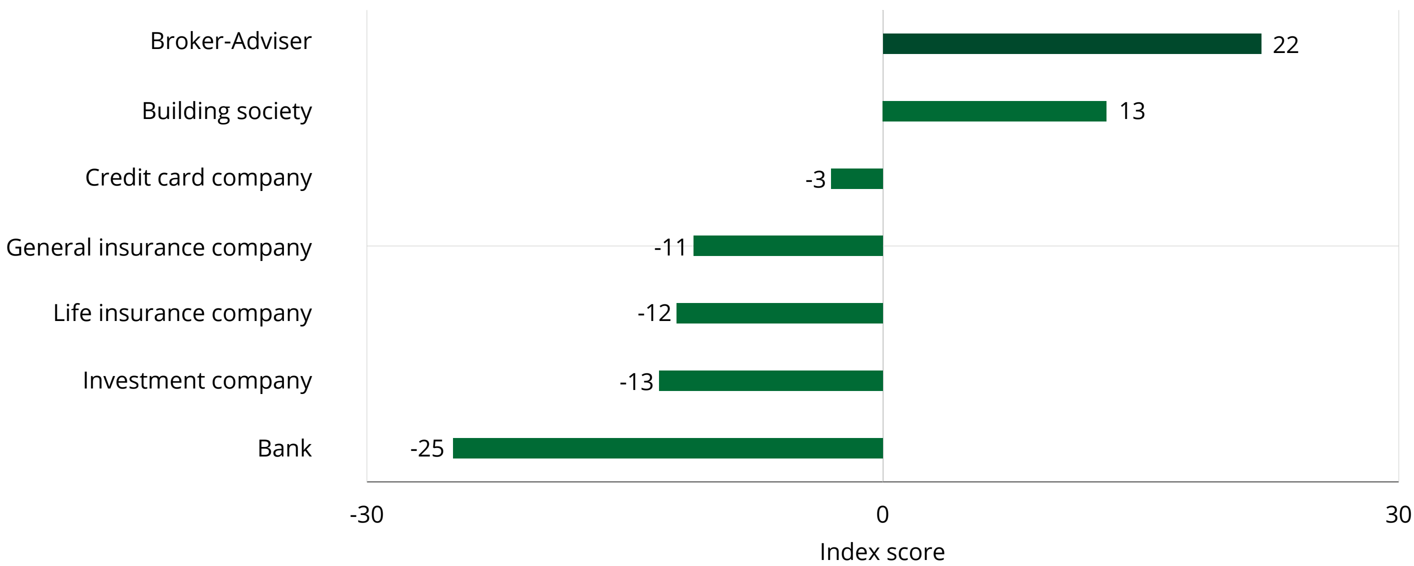
(Ros Stewart, small business owner)

Insurers found three main benefits for clients in using a broker for policy advice:

- Ensuring a sufficient sum insured: the broker is a specialist in risk identification, measurement and advice, and has access to professional insurance valuations, to ensure that the clients' sum insured is sufficient.
- Ensuring more appropriate policy, in terms of product selection and customisation: the broker understands the various products on offer and how they apply to the client's business. Examples of insurance types often overlooked by insureds include business interruption and cyber risk coverage. The broker may also offer more optimal coverage because of access to a greater range of policy wording options, including those negotiated by their network.
- Ensuring the clients' limited liability: a broker is liable for the policy coverage advice they give clients. If the client ends up uninsured for an incident due to negligence on the broker side, the client may instigate legal proceedings. Brokers also provides clients with a check of their own risk assessment.[30]

Insurance products which are sold to consumers directly tend to be less complex product lines, while more complex products tend to be sold through the broker channel (and in many cases are only available for purchase through a broker, see Table 2.1).[31] Insurers noted even with these less complex products, clients who purchase insurance directly may need support to understand the extent of their cover, in terms of both their sum insured and policy exclusions, as they often do not possess the time or expertise to understand nuances in policy wording.[30]

Chart 2.6: Trust in financial institutions, index of UK survey respondents, 2014



Source: Devlin et al, Trust in financial services: Retrospect and prospect (2015)

2.1.6 Advocacy for clients

Clients are less likely to be dissatisfied with brokers than with insurers. This may be because clients see their brokers as their advocate in the market, and because the broker has helped them to develop expectations of their insurance prices and coverage limits.

The Australian Financial Complaints Authority (AFCA), previously the Financial Ombudsman Service (FOS), reports the number of complaints made, by type of product. In sixth months to December 2019, 4,565 complaints relating to general insurance products were progressed to AFCA's case management stage (accounting for 23% of all complaints). Of these, less than 1% (35) were complaints made against general insurance broker businesses.

Brokers also support their clients by representing their interests when engaging in advocacy for the broader insurance industry. For example, NIBA has actively contributed to work being undertaken by Treasury regarding the proposed application of Unfair Contract Terms legislation to insurance policies (a recommendation of the Financial Services Royal Commission). In this instance, NIBA's submission to the consultation process raised concerns on behalf of clients that uncertainties arising from the legislation could make insurance more restrictive and more costly for policyholders.[32]

NIBA has also represented the interests of insurance policyholders to support state government decision making. This includes a recent submission to the NSW Treasury Small Business Strategy 2020, where NIBA highlighted the impact of the emergency services levy on general insurance premiums resulting in under and non-insurance of property due to higher fees.[33] Where brokers engage with policy makers about the impact of regulatory changes, they can support optimal outcomes for clients.

2.2 Supporting clients with product tailoring and selection

Brokers can support clients to ensure that their insurance solutions are relevant and aligned to their risk profile. A broker supports a client in selecting a more appropriate insurance product, by:

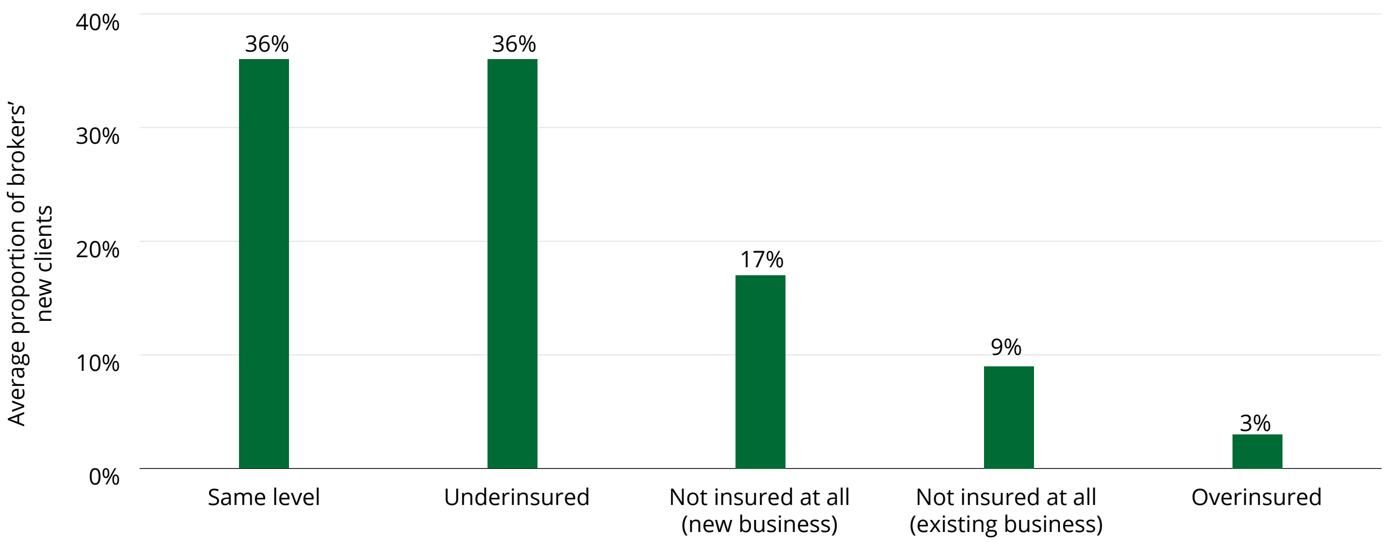
- Providing advice about the level of cover, in terms of sum insured, limitations and exclusions
- Providing advice about the type of cover, including introducing new or customised policies
- Providing access to a greater range of product offerings, including products only available via intermediaries, and product variations only available through broker networks, and
- Providing access to tailored products; including niche and industry specific products, and individualised policy wording.

2.2.1 Levels of cover

Brokers support clients by arranging a level of cover which best reflects their needs. This often includes reducing instances of underinsurance, but may also see brokers support clients in tailoring policies in order to limit instances of overinsurance. Clients expressed that using a broker minimises their risk of being underinsured, given their broker' ability to understand the extent and nuance of their businesses' risks.

Brokers were surveyed about the new clients they gained in 2019, and their level of insurance prior to engaging their broker. These clients may have previously engaged a different broker, purchased insurance through the direct channel, or not been insured at all. On average, brokers estimated that 45% of their new clients were existing business that were underinsured or not insured, prior to engaging a broker (Chart 2.7).[34]

Chart 2.7: Previous insurance levels of each broker's clients



Source: Deloitte Access Economics, Broker Survey (2020)
Note: n=421. Single response per broker per category.

Insurance brokers were also asked to reflect on the insurance profile of their most recently acquired client who was not previously using an insurance broker. For this group of clients, 76% of brokers identified that their newest client was previously underinsured, with an additional 13% noting their newest client was previously not insured at all. Only 10% of brokers felt that their most recent new client who had previously purchased insurance directly was appropriately insured for their level of risk (Chart 2.8).

2.2.2 Types of cover

Brokers understanding their clients and the nature of their risks, and provide value by assisting clients in understanding their product needs and the value brought by different insurance offerings.

As well as explaining types of cover, brokers also identify types of risks which clients may not have recognised. Cyber risk insurance is an emerging product offering, with clients noting that they would not have recognised their need for this insurance, in the absence of their broker. Cyber risk insurance covers clients in incidents of inadvertent loss or release of customer personal information, ransomware, and the business interruption losses or legal costs which may come alongside a cyber event.[35]

These benefits are likely to be larger for clients with more complex insurance needs. A survey of small businesses found that SME clients tend to use brokers for products which are more complex (Table 2.1). SMEs commonly purchased complex and more specialised products through brokers, such as professional indemnity or industrial special risk coverage. SMEs were more likely to buy simpler products, like motor vehicle or workers compensation, directly.[36]

Table 2.1: Likelihood of purchasing insurance through a broker, by product type

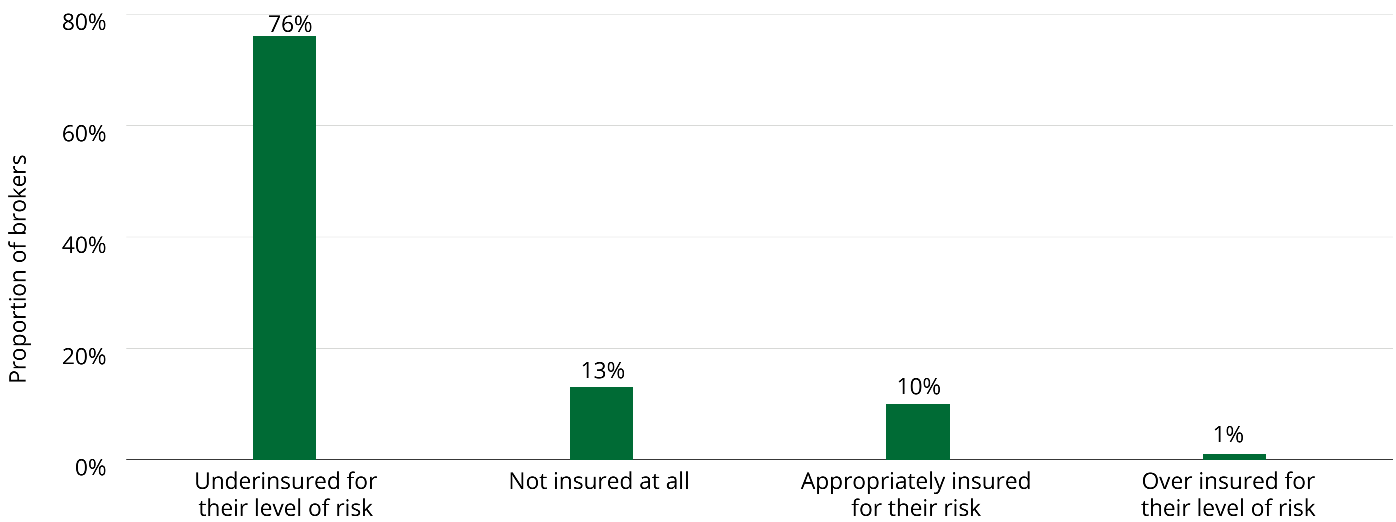
More likely	Less likely
Professional indemnity	Public liability
Management liability	Commercial property (including fire and theft)
Business interruption	Commercial motor vehicle
Industrial special risk	Workers compensation
Cyber insurance	Travel insurance
Marine (includes inland transit & cargo)	

Source: Vero SME Insurance Index (2019)

Box 4: The benefits of business interruption insurance

A common example given by clients and insurers was that brokers identify clients' need for business interruption insurance. This covers a business' loss of income following a disaster event, where there is a need for the business to close or rebuild for an interim period. One client noted the importance of this coverage when they made a claim relating to water damage at an investment property. Because the client had insurance for business interruption, they were able to make a claim for lost rental income during the repair period. As well as supporting the client's cash flow, the client noted that an extended period of lost income may have required them to increase the loan value on the mortgaged property, in the absence of rental income to make repayments. Where the interest rate on the mortgaged property was set in relation to the equity to debt ratio, this lost income may have resulted in a long-term financing expense for the client.

Chart 2.8: Previous insurance level of each broker's newest client



Source: Deloitte Access Economics, Broker Survey (2020)
Note: n=421. Single response per broker. Clients identified as previously 'not insured at all' may be new or existing businesses.

2.2.3 Access and choice

Brokers can provide clients with access to a greater range of possible insurers and product options.[37] This includes products and insurers that a customer would typically not be aware of, or not have access to through the direct channel.

Some brokers also have access to additional products, or policy wording variations, because of their alignment with an industry network. For instance, when a broker uses a policy comparison tool to search for an insurance product for a client, they may have access to the insurer's standard policy wording, and a version of the insurer's wording with additional coverage items, coverage levels, or variations to exclusions and limitations.[38] The broker can choose between the product's standard or network-aligned wording, giving the broker greater choice in selecting a product that best fits their client's needs.

This may involve brokers' working with insurers to customise a policy's wording to reflect the clients' individual circumstances. For example, a brokers' recommendation that three similar assets be insured under one 'bundled' policy – simplifying this coverage supported efficiency for the insurer and the clients in the claims process.[39]

There are four possible 'versions' of each insurance product:

- The direct product – which can be purchased without a broker
- The intermediated product – an insurers' generic product offering to those using a broker
- The intermediated product with network wording - an insurers' product offering to those using a broker from a particular network, where wording has been negotiated by their network.
- The broker-negotiated product - an insurers' product offering for a specific client, customised based on the information provided to the insurer by the broker. This may include a bundled option, or industry specific policy wording.[40]

Brokers have been found to have a relatively higher contract conclusion rate than exclusive agents – that is, that a client's consultation with a broker who is not aligned with an insurer is more likely to result in their signing of an insurance product. This contract conclusion rate increases as the number of products in the clients' choice set increases.[41] This suggests that brokers bring value to clients by increasing the range of product which a client has access to, including facilitating access to more specific and tailored products.

Brokers also play a role in working with their clients' industries to advocate for changes to specific types of coverage. This might include changes to regulations, or the terms and conditions of standard insurance coverage for that industry. Brokers can work with client groups to improve the structural mechanisms in place to protect against uninsurable risks, which can impact an insurers' appetite to take on difficult-to-place risks and increase the client's access to cover.

Insurance brokers can also provide their clients with access to specialist and overseas markets. In the year ended December 2019, insurance intermediaries invoiced $13.4 billion in premium. Of this, $1.7 billion (13%) was placed with Lloyds underwriters (specialised insurance syndicates) and $0.9 billion (7%) was placed with Unauthorised Foreign Insurers (UFIs).[42] For these clients with high specialist insurance requirements, using a broker is essential to access these foreign insurance markets.

2.2.4 Industry-specific risk solutions

Some brokers are also industry specialists, who can provide clients access to risk solutions that are tailored to their industry and address emerging risks. This includes creating schemes and facilities for niche client groups:

"Brokers have also identified insurer gaps in terms of offering a holistic product for an industry. For example, scheme and/or affinity business which provide generally broader cover for like-minded businesses that have customised coverages specific to a particular occupation. Any segment of Australian business would be considered such as retail, hospitality, manufacturing, professional services and the like. The broker in these instances builds up a core competency in these chosen fields to become the insured subject matter expert and provide an easier and more efficient way of transacting business."

(Anthony Pagano, Head of Commercial Intermediaries, Vero)

While some industry-specific insurance packages are sold directly, the customer will need to 'take what is on offer' in terms of the policy wording, in the absence of a broker to negotiate a customised product. Clients perceived products sold directly as generic, and expressed concern that businesses who purchase insurance directly do not know what they are covered for (in terms of policy limitations or exclusions), or whether they are insured sufficiently (in terms of sum-insured).[43]

[40] Not all insurance policies are available through all four of these channels – for instance, many complex types of coverage are not sold directly.

[42] UFIs are foreign domiciled insurers, not authorised by APRA to conduct insurance business in Australia except under specialist circumstances (where the client is 'high value insured'; where the risk is 'atypical' or highly specialist; where the insurance cannot be reasonably placed in Australia; or where a certain insurer is required by foreign law).

Box 5: Role of a broker in providing industry-specific risk solutions

Ros Stewart is the Managing Director of Queanbeyan Diesel, a mechanical diesel fuel injection business. Her business insurance is arranged by Sydney brokerage,Austbrokers ABS.

Ros explained the value of her broker in providing risk solutions that are relevant to the business' industry and operations. The business' insurance policies and sums insured are reviewed annually, in line with changes to the assets owned by the business, which include high-value, specialist technical tools that are regularly replaced or updated. Ros sees the value of using a broker to ensure that her business' insurance is as customised: "our motor-trade cover is tailor-made for what we do, for our industry."

Ros is also a member of the Australian Automotive Service Dealer Network (AASDN). Insurance brokers regularly present to this group, explaining emerging risks and insurance products that are particularly relevant to the industry. Presentation topics have included the need for cybersecurity, the risks of underinsurance, and an overview of insurance options which are specific to the motor trade industry. This information is valuable for the network, because brokers can provide advice which is relevant to current state of the industry. Ros believes that if the business had purchased a generic insurance product (even from an insurer that specialises in motor insurance products), this level of industry-based risk advice would not be available.

2.3 Increasing competition in the insurance market

Brokers support clients by reducing the information asymmetry they face in the insurance market. This information sharing increases the level of competition between insurers, in terms of more precise pricing to reflect the clients' risk profile, and increased product competition, particularly in terms of the range and customisability of products some through the broker channel.

2.3.1 Price competition

There is a high level of information asymmetry in the insurance market. In the absence of brokers, clients do not have the tools to accurately compare the product premiums across insurers and may not have sense of an appropriate benchmark for the appropriate premium for an insurance line. Given that insurers price based on the information they have about the client, clients working with a single insurer may have a limited sense of how competitive a price offer is.

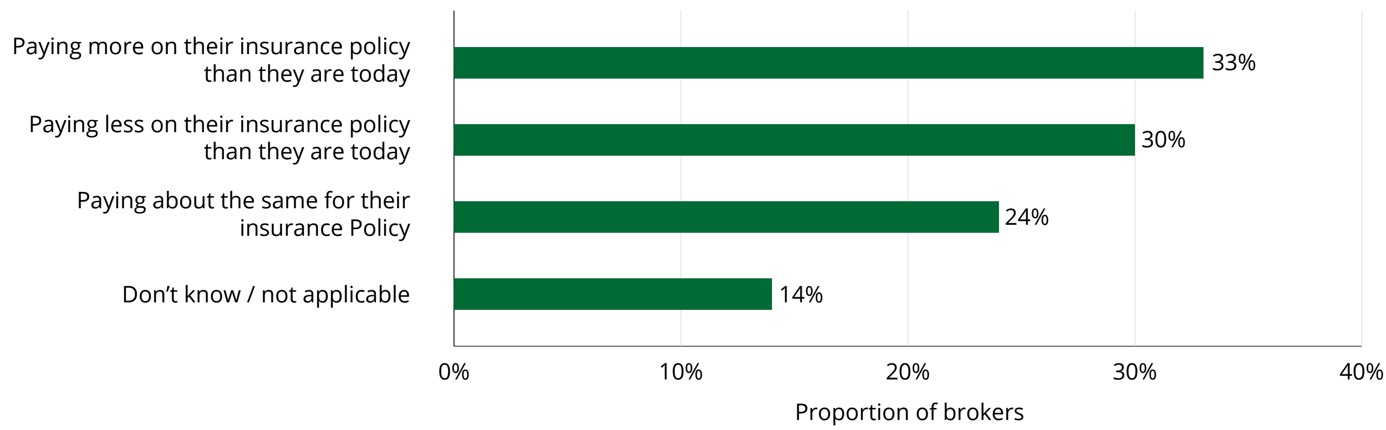
Brokers reduce the level of information asymmetry which clients and insurers face in the insurance market:

- Brokers provide clients information in the form of comparisons of product premiums. This allows clients to make comparisons of the prices of like-for-like products.
- Brokers provide insurers with client information. Risk premiums are most competitive where the insurer believes it has good information about the client and is confident about efficiently pricing this risk. Brokers information sharing can increase insurers' price competition, to the benefit of the client[44]

Another way brokers can reduce the premium to the client is to tailor or customise products to clients' specific needs. For example, homeowners often purchase separate insurance for jewellery; however, if this is bundled into their home and contents coverage, the premium for the consolidated product is often lower than for the two separate products.[45]

Surveyed brokers were asked to consider their most recently acquired client, who was not previously using a broker to purchase insurance. When asked about the prices which these clients were paying for their insurance, prior to engaging a broker, responses were mixed.

Chart 2.9: Client's level of insurance, prior to engaging their broker



Source: Deloitte Access Economics, Broker Survey (2020)
Note: n=421. Single response

A third of brokers assessed that their newest client was paying more on their policy prior to engaging a broker. This may reflect the role of the broker in finding a more competitive premium for similar cover. This is unlikely to reflect reduced cover, as only 1% of brokers identified their newest client as having been overinsured.

A significant portion (30%) of brokers thought that their newest client was paying less on their policy prior to engaging a broker. Given that 76% of brokers identified their newest client as having been underinsured prior to engaging their broker, this increased price may reflect an increase in the level of cover which the broker supplied these new clients.

Brokers were also asked about the reasons that their clients insurance premiums changed (Chart 2.10). Responses strongly suggest that price changes were primarily due to the client's ability to access a level of cover which better reflects their risk. In many cases, a price change reflects that a broker has arranged a customised policy (39% of brokers' clients), or that the client has accessed a policy through the broker that was not previously available for them (17%).

For some clients (23%) prices were lowered because the broker found a competitive offer from a different insurer. However, it is important to note that an increase in a client's total premium may not necessarily reflect a less competitive price, but an increase in the extent of their cover (either sums insured or type of policy).

Some brokers are able to access more competitive premiums for their clients by buying in bulk through group insurance schemes. These schemes involve brokers arranging coverage for a group of clients (such as associations, industry bodies or franchisees). Under these group schemes, clients benefit from:

- Greater bargaining power which can reduce premiums
- Access to an insurance policy that is tailored to the needs of the group, ensuring that premiums reflect only the coverage that is necessary, and
- Combining the groups' claim history, which increases the information available to the insurer (and in some cases would reduce premiums by reducing the risk to the insurer).[46]

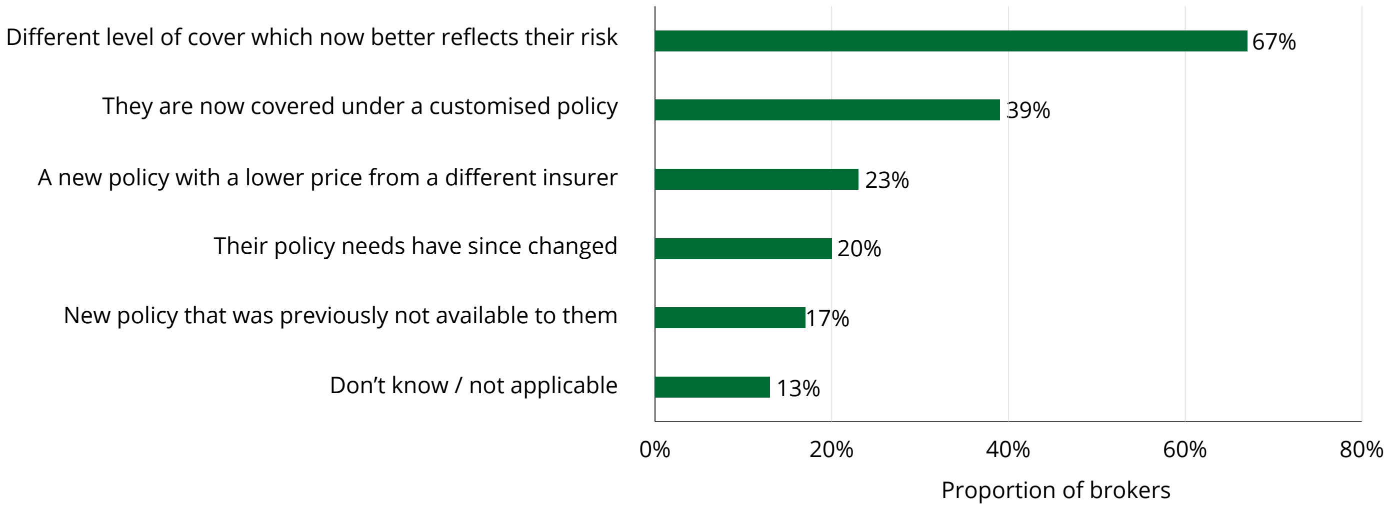
Retail (client facing) brokers may also engage wholesale insurance brokers to place premiums for highly specific products. Wholesale brokers act as an intermediary between a retail insurance broker and an insurance carrier, and tend to have expertise and greater buying power in a specific coverage types, which can also reduce premiums.[47]

2.3.2 Product competition

Brokers encourage product competition between insurers. Brokers do this by:

- Increasing the range of choices available to the client and informing their product selection, and
- Providing insurers with information about individual clients, which increases the insurers' willingness to offer a customisable product.

Chart 2.10: Reasons that brokers' client's insurance prices changed, as identified by brokers



Source: Deloitte Access Economics, Broker Survey (2020)
Note: n=421. Multiple responses allowed.

Where there is greater level of competition between insurers, clients benefit from a market with higher quality products. An insurance product might be defined as high quality where there are high limits or sums claimable, few exclusions, and where sums insured best reflect the individual client's risk profile. Quality could also be reflected in the extent to which a product is customisable to their industry and their business.

Brokers provide their clients with great access to a range of products and access to more specialised and customisable products (see Section 2.2). Brokers present their clients with a greater set of options, and support clients in making an informed comparison across products. This increases the level of choice that the client has over their insurance coverage and incentivises insurers to compete for clients through greater product differentiation and quality.

Unlike an agent who works exclusively for one insurer, brokers are aligned with their client's interest and work with a range of insurers to find cover that best suits their clients' needs. NIBA's annual survey of their members suggests the average broker placed cover with 10-11 different insurers in 2019, up from an average of 9-10 insurers in 2018.[48] This is often more than a typical consumer may compare or observe on their own.

Brokers' comparisons provide clients with a benchmark for the quality of coverage. Many brokers use comparator, or aggregation tools to assess the relative strengths of a range of similar product offerings. These tools also support brokers to compare product differences at a granular level of detail, with relative ease (see Box 6).

As well as increasing insurer competitiveness by increasing the number of products which clients can choose from, brokers facilitate quality competition in the extent to which insurers offer clients a well-suited, or customisable product. In a market where there is a high level of information asymmetry, insurers noted that they are often willing to provide a more customisable offer for clients where they have access to more information, as they can more confidently assess a client's risk level. In this instance, brokers may provide more value to business clients and those with complex risk profiles than they do to private individuals with simple risk profiles. This also reflects insurers' choices in using the broker channel to facilitate more complex transactions (see Section 2.5.3).

Box 6: LMI PolicyComparison

LMI PolicyComparison is an information aggregation tool used by brokers to compare the wording across different insurers' intermediated products. Premiums are then negotiated with the insurer separately.

The examples below use search results from the LMI comparison tool to demonstrate the different choices which are available for clients who use an insurance broker – as examples of the complexity in the market and the product variation that brokers can facilitate by encouraging competition across insurers.

These options may suit different clients, with the value of the broker being their ability to select a product which best reflects their clients' needs, from a greater number of possible choices. In some instances, the client would only be able to access a specific policy where their broker is aligned with a network that offers this wording.[49]

Same insurers' direct product vs intermediated product	Insurers' standard product wording vs its network-aligned network wording (limitations)	Insurers' standard product wording vs their network-aligned network wording (coverage types)
One insurer offers four different home insurance products through the comparison site. Two are 'intermediary only' offering. The main differences between the products are variations in the limitations of cover at the individual contents level. For example, the two standard policies place set limits of cover on jewellery - $2,500 per item, up to $7,500 in total (unless otherwise specified), with some exclusions. In the intermediary only policies, the limit of cover for each individual item is lower ($2,000), though the total limit is up to 20% of the contents sum insured.	Comparing one insurer's standard business package offering against the network wording, there are significant differences in claims limits for specific product features. For example, the claim limit on theft of contents from a building premises (excluding stock) is set at $2,000 under the insurer's standard wording, while the network wording includes a coverage limit of $10,000-$20,000 depending on the circumstances.	Comparing one insurer's standard cyber management insurance for businesses, against two network-aligned versions of same insurers' wording, there were differences in the coverage types and optional extras which are only available through one intermediary's network. One network aligned policy allowed for cover of cybercrime, which was not a component of the standard product offering. Cybercrime occurs where the insured suffers loss of funds or securities where they have been fraudulently accessed.

2.4 Saving clients time

Brokers' ability to navigate the insurance market provide efficiencies for clients. Brokers save clients resources by:

- Saving clients time in every stage of the insurance lifecycle
- Supporting clients in product selection, in terms of product search and matching
- Co-ordinating clients' policy portfolios, and
- Regularly reviewing clients' policies in line with changes to the clients' operations and in the insurance market.

2.4.1 Saved time across the insurance lifecycle

Brokers assist their clients in understanding their risk and coverage needs, identifying and comparing coverage options, making claims where required and undertaking annual review of cover. On average, brokers estimated that this these processes would take the average SME client arranging a business insurance policy 13.5 hours longer if they had not engaged a broker.[50] Of these hours, 11 relate to the standard annual insurance lifecycle, while 2.5 relate to the claims management process (see Chart 2.11 and Chart 2.12 for analysis of time saved).

This time saving can be converted to a dollar value by considering the opportunity cost of the time that the client would lose, if they were arranging the insurance policies themselves.[51] Using a standard measure of the value of this time saving per hour ($27), it is estimated that the 11 hours of time saved equate to $297 in value to each client. While clients pay for brokers' services, this estimate seeks to quantify only the efficiency benefit to the client. As noted in Section 2.2, brokers provide a range of other service benefits, including product tailoring.

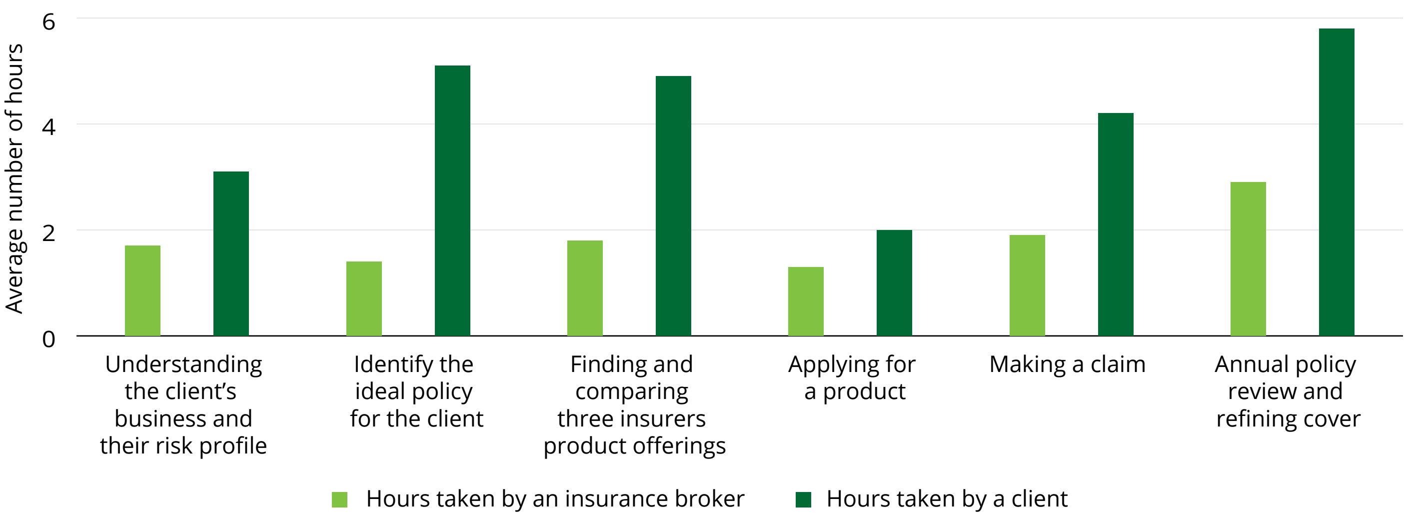
It is estimated that more than 803,000 Industrial Special Risk (ISR) policies were arranged by intermediaries in 2019.[52] An ISR policy is often arranged by brokers as a more tailored alternative to an insurers' standard direct 'Business Pack' insurance offering.[53] This figure provides a proxy to estimate the total contribution that brokers bring to insurers by arranging such policies on their behalf. A saving of $297 for each intermediated ISR policy equates to an aggregate value of time saved of more than $230 million dollars.

This estimate is considered conservative as it relies on:

- The upper range of the average premium for an ISR policy (where a higher average price reduces the estimate of total ISR policies arranged).
- The lower range of the share of ISR policies that are intermediated (around 50%), noting that intermediated products tend to be more commercial, such that the share of intermediated ISR policies is likely to be higher.
- It also does not include the additional value of time saved in the event of a broker supporting in the claims process.

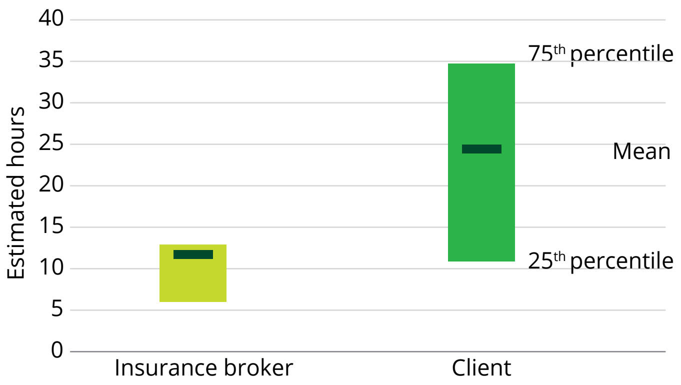
In addition, this estimate is based on a survey question which askes insurers about the time it would take their clients to arrange a standard business insurance policy (similar to an ISR product). Brokers would be expected to save clients additional time and resources by arranging other types of business cover that sit outside of the ISR policy - such as business interruption, professional indemnity or motor vehicle insurance.

Chart 2.11: Time taken by insurance brokers and clients in each process, average response



Source: Deloitte Access Economics, Brokerage Business Survey (2020)
Note: n=40. Single response. 34 broker responses were incomplete or identified that clients would not be able to complete one or more of the six tasks. These results are hence considered conservative.

Chart 2.12: Time taken by insurance brokers and clients across the insurance lifecycle, distribution of responses



Source: Deloitte Access Economics, Brokerage Business Survey (2020)
Note: Insurance brokers were asked how long each process would take them, as compared to a client. Of all respondents (n=74), 46% of brokers (n=34) indicated that clients would be unable to perform one or more of the six tasks, and are excluded. The range of the bars represent the interquartile range (the middle 50% of responses). The range for brokers was 2 to 65 hours, while for clients, the range was 1 to 119 hours.

2.4.2 Appropriate product selection

Brokers' ability to select a suitable insurance product brings their clients:

- Direct benefits, in terms of time and resources saved in comparing and applying for insurance products, and
- Indirect benefits associated with the avoided costs associated with underinsurance (see Section 2.2.2).

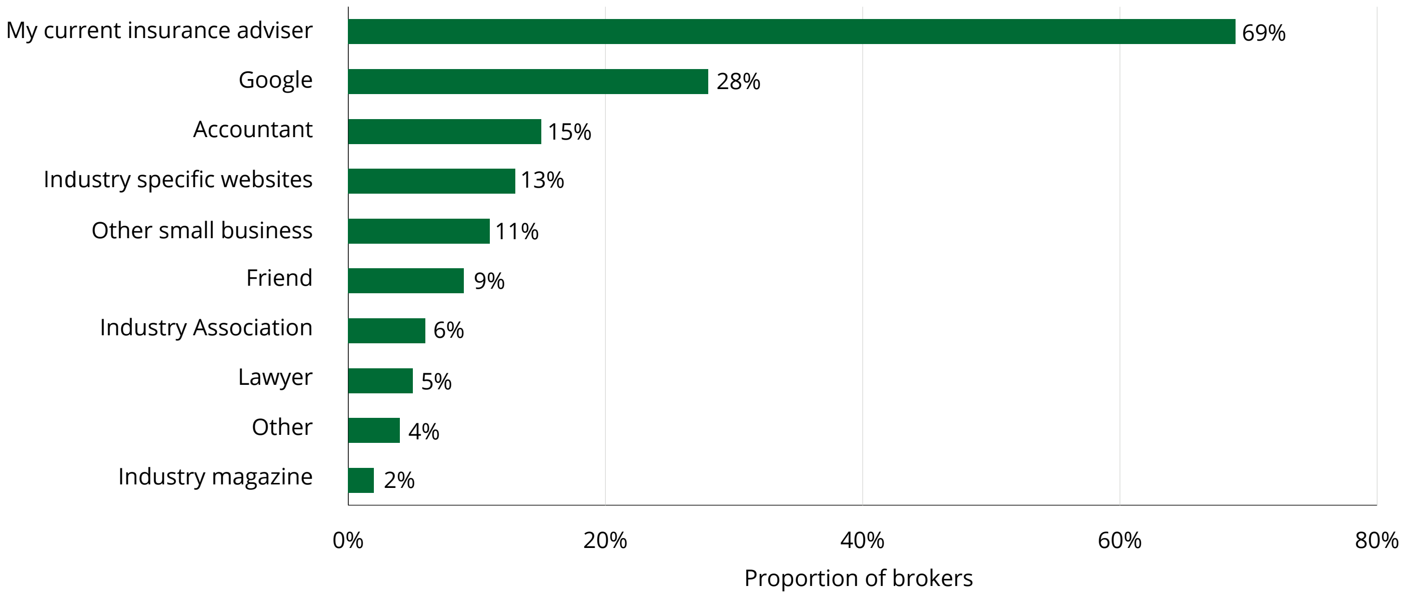
Brokers estimated that it would take the average SME client 4.8 hours longer than a broker to understand their risk profile and identify the ideal policy to cover this risk.[54] While clients access the insurance market infrequently, brokers are specialists in the field, and have experience in understanding product terms and conditions, as well as the risk appetite of various insurers.[55]

- Brokers estimated that it would take them 1-2 hours to compare three insurers' product offerings, and that this would take the typical SME client 2-6 hours.[56]
- On average, brokers estimated that they would save clients 3.2 hours in the product comparison process and as additional 0.6 hours in completing the clients' application for insurance.

Drivers of this time saving may be that brokers have access to information aggregation systems to more efficiently compare products and are more likely to be familiar with product exclusions, given their prior experience. Some brokers identified that clients would be unable to complete these processes on their own – this may reflect that some insurance products are only distributed through the broker channel. These benefits are larger for clients with more complex needs (see Section 2.2.2).

When broker users were surveyed about their preferred source of information on general insurance, the most common response was 'my current insurance adviser' (69%) followed by Google (28%).[57] This suggests that in the absence of a broker, clients may be ill equipped to engage in a market where there is a high level of complexity in the information provided. Particularly for more tailored product offerings, the client may be limited in their ability to make clear product comparisons or understand how well-suited certain coverage solutions are to their needs.

Chart 2.13: Clients' regular source information on general insurance



Source: Insurance Advisernet (2019)
Notes: Surveyed SME clients were asked 'Where would you normally seek information on general insurance?'. Multiple responses allowed; responses do not sum to 100%.

2.4.3 Co-ordinated risk management

Some small businesses noted that they prefer to buy all insurance through a broker because they can co-ordinate and keep track of various policies for different assets and risk types.[58] In consultations, small business owners also cited the value of brokers in managing a portfolio of insurance policies and identifying year-to-year changes to policies. Brokers may also support clients in co-ordinating insurance cashflows, including the payment of premiums and claims, to facilitate business budgeting and financial recovery from incidents (see Section 2.5.2). For larger businesses and those with highly complex cover, this may extend to brokers monitoring the ability of insurers to pay claims.

2.4.4 Regular policy reviews

Brokers regularly fine-tune clients' policies in line with changes in the client's needs and in the insurance market. As clients risk profiles and insurers risk appetited change, the broker's role in reviewing and refining policy can ensure that the extent of their clients' cover remains appropriate, and price competitive.

One consultee explained that when their insurance policies are due for annual renewal, their broker researches the latest changes in policy options and provides an updated comparison of different insurers' products. The broker also groups and filters these options based on price and coverage, so that the client can consider the affordability of different coverage options.[59] Another consultee noted that their broker conducts an annual walkthrough of their property, to discuss any changes to the business' operations and assets since the last policy update. This provides the broker with key details to inform the policy renewal process, with the client noting that the broker makes them feel confident in their level of cover.

2.5 Supporting clients throughout the claims process

Brokers' partnerships can lead to better outcomes for clients in the claims process. The broker acts as an advocate for the client, which:

- Saves clients **time** in the claims process
- Improves client's **satisfaction** with the claims process, and
- Ensures a favourable claims **payout** for the client.

2.5.1 Saved time making claims

Brokers save clients time and resources by engaging directly with insurers during the claims process. In a recent survey of SMEs, 93% of broker clients who had made a claim on their insurance policy indicated that their broker managed the claims process or gave them some advice.[60]

Insurance brokers were asked how long it would take them to make an insurance claim on their clients' behalf and how long with would take a client to make a claim by working directly with the insurer. Brokers reported that making a claim for an SME client with typical business insurance would take them 1-2 hours, and that the same process would take the client 1 5 hours.[61] On average, brokers reported that they would save clients 2.4 hours in the claims process.[62]

Clients also benefit from having their broker as a single point of contact for their claims management:

"Insurance brokers know how to deal with insurance companies. They are there to advocate for me. That is beauty of having a broker – not having to call a 1300 number to speak to someone you don't know. Every time you ring [an insurer] you speak to somebody different".

(Ros Stewart, small business owner)

Box 7: LMI Group's reflections on the value of the broker channel

The LMI Group is typically engaged by insurance brokers to support the claims process on behalf of their clients. LMI Group provides claims assistance and other advisory services.

In its experience, the LMI Group encourages and endorses the use of brokers by clients to support better outcomes across the entire insurance lifecycle, including:

- Leading clients to better, more tailored products in the market, including unpacking the complexity of different products and adjusting the conditions within any one product in line with their requirements and risk appetite.
- Ensuring an optimal insurance coverage, in particular, by better understanding a client's risks and the risks that the client may not be aware of (and hence, likely be underinsured for).
- Explaining in advance the penalties for underinsurance and the impact of policy exclusions.
- Providing advice on alternative ways of minimising risk and making the risk more attractive to underwriters.
- Providing clients with access to a broader range of products that the typical customer would not be aware of otherwise or necessarily have access to.
- Managing claims and ensuring that the appropriate outcomes are delivered by insurers to customers in a timely manner, by understanding the cover and benefits, and actively undertaking any processes or negotiations with insurers.

Source: Deloitte Access Economics, Consultation with LMI Group.

Clients also noted brokers' support in managing communications throughout the repair and recovery process, including arranging quotes and scheduling works in a manner which required limited engagement from the client. Ros described a situation where a break-in to her workshop caused damage to a motor vehicle which belonged to one of the business' customers. As part of supporting with the claim, the broker also worked directly with the customer who owned the vehicle to arrange these repairs. This allowed the business owner to focus on returning to trading as efficiently as possible.[63]

2.5.2 Supporting clients through the claims process

Clients whose brokers assist them in the claims process are much less likely to feel their claim is complex. While 30% of those clients whose broker managed the claim said it was complicated, this rises to 58% among those who managed the claim on their own.[64]

Brokers' familiarity with claim process also benefits clients, and simplifies the process: 41% of SMEs noted that the claims experience would be more difficult without a broker. A report from Vero argues that the more involved the broker is, the less likely the claimant is to feel that their claim is complex.[64]

Brokers' involvement simplifies the claims process for clients. Clients also value a brokers' emotional support during the claims process:

"You could talk to them about what you're going through, they understand, and they are emotionally involved... Without their support it would have been a totally different journey."

(Grace Zatta, small business owner)

During an ongoing dispute with their insurer about whether water damage to a property was caused by a 'flood' or 'storm', Grace noted that her insurance brokers were "paramount" in assisting in the negotiation. Her broker accompanied her to every meeting with her insurer.

2.5.3 Claims outcomes

A favourable claims outcome for a client may reflect their broker's ability to tailor products at the product purchase stage, in order to prevent underinsurance. This may reflect that brokers understand the claims process and can advocate for clients. Insurers perceived brokers as product and process specialists, whose role is to act as an advocate for the client, including in the claims process. Insurers agreed with the proposition that clients who engage brokers in the claims process tend to receive higher claims payouts:

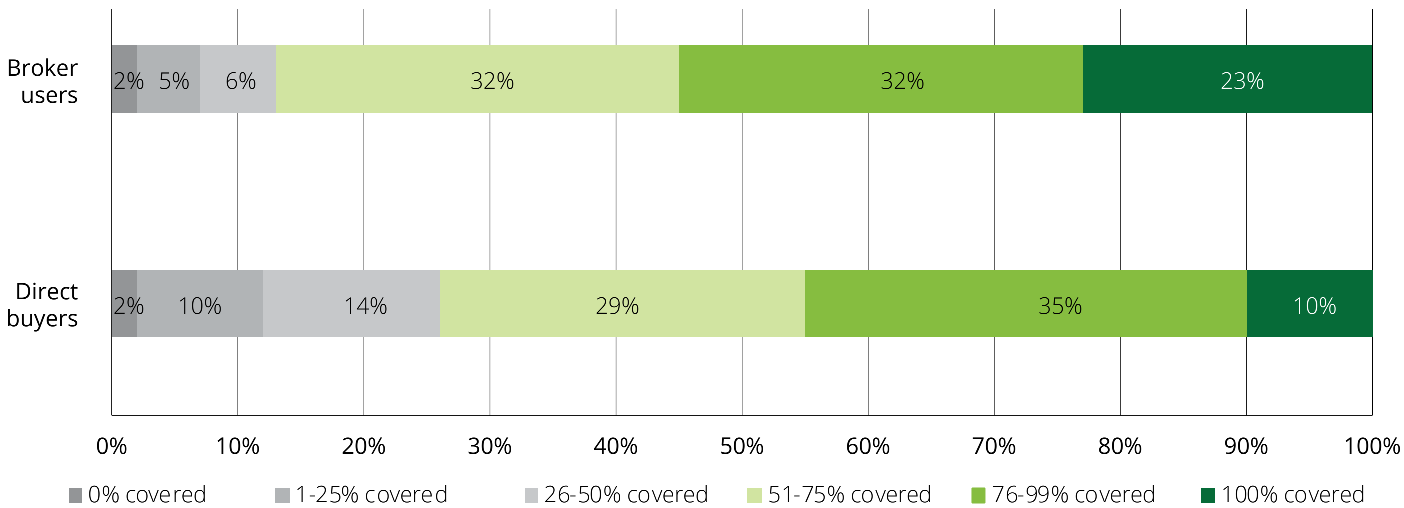
"Especially for those with complex cover, or for SMEs with little experience in the claims process. Clients who purchased directly might otherwise have a limited understanding of what their cover includes. This might include an incorrect interpretation of policy terms or a lack of time to acquire the skills to be able to manage the claims process themselves. A broker is a valuable advocate for the insured in providing such understanding of policy terms and what may or may not be covered under the policy."

(Elliot Hill, General Manager - Sales & Relationship Management, Commercial Lines, QBE Insurance)

A broker can advise a client about the extent to which they are covered, and providing guidance about how to articulate the impact of an incident, to an insurer. For example, a client may be unaware that their business package insurance covers both property damage and business interruption, and they may not be able to clearly communicate the nature of the business interruption to the insurer.[65]

A survey of SME clients about their claims outcomes shows a significant difference between the proportion of loss covered for broker users, compared to direct buyers. Brokers' clients are more than twice as likely to be fully covered for their claims (Chart 2.14). Broker users had a higher amount of loss covered, with 87% of broker users covered for more than half of their claim, as compared with 74% of direct buyers.[66]

Chart 2.14: Claims coverage by insurance purchase channel



Source: Vero SME Insurance Index (2019)

It is important to note that there are a number of factors that contribute to the extent to which a loss would be fully recovered, including the coverage available under the policy and the level of the sum insured for each area of cover. Nevertheless, it is clear that overall, SME clients using insurance brokers report recovering a significantly higher proportion of their loss than those who do not.

2.6 Ongoing risk education

Brokers play a key role in developing their clients' risk awareness and financial literacy. This includes helping clients to understand their risk, and supporting clients in risk minimisation and mitigation.

2.6.1 Understanding risk

The need for a broker's risk advice services may vary between clients:

- Clients who do not have the expertise to undertake their own risk assessment may be more likely to seek the support of a broker to ensure an accurate estimate of risks and exposures.
- Clients that confidently understand their risk level may still seek the services of a broker to support them in the product search and tailoring process, and in making claims against their coverage.

Brokers were surveyed about their clients' ability to assessing their own risks level. Brokers were asked to break down their client base into three groups, reflecting the extent to which their clients understood their own level of risk. Responses suggested that a brokers' client base is mixed. On average:

- Brokers were very confident that 39% of their clients would understand their own level of risk. The large portion of clients in this category may also reflect that a broker sees a core part of their role to provide clients with this understanding.
- Brokers were not at all confident in the capacity of 25% of their clients to understand their own level of risk.
- Brokers were somewhat confident in 37% of their clients' capacity to assess their own level of risk. These clients may seek the services of a broker to support both risk assessment functions and insurance product matching.

Brokers responses ranged from those who split their clients relatively equally across the three groups, to those which placed 100% of their clients in one category. This suggests that there may be a level of specialisation between brokerage businesses – while some brokers focus on providing risk advisory services to clients who do not have a strong understanding of their risk levels, others may specialise in providing clients with customised and tailored products.

2.6.2 Risk minimisation and mitigation

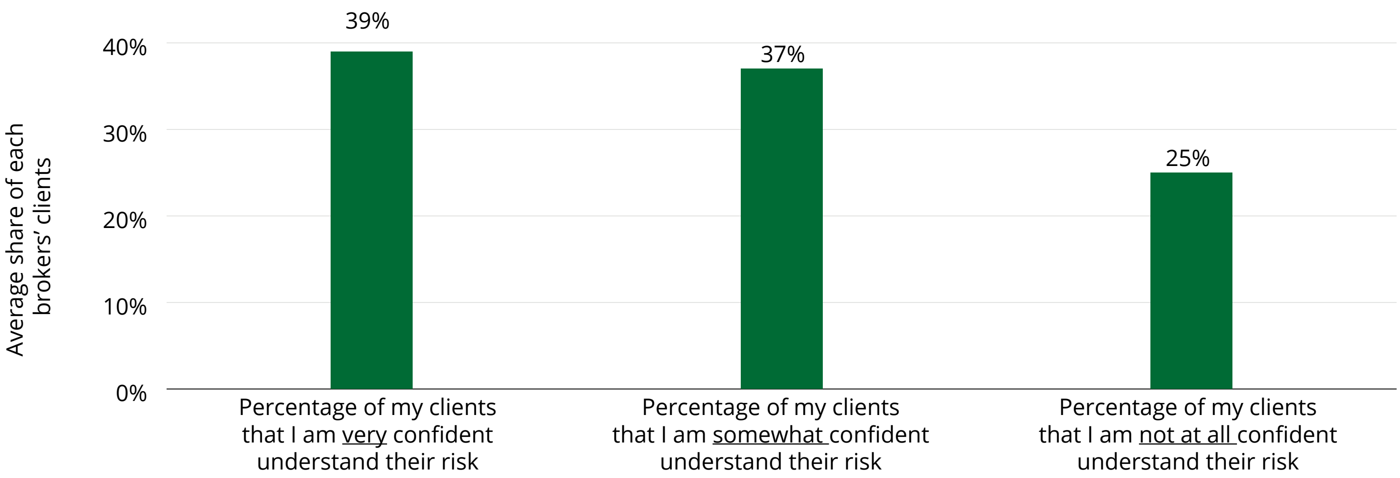
Brokers' advice to clients can reduce their exposure to risks and support them in establishing business continuity plans and disaster resilience strategies. Where a client can demonstrate strong risk management capabilities, this may reduce the premium charged by the insurer. This is particularly true for large insureds, with highly customised policies.[67]

Insurers see their role as pricing clients' risk in line with the information they have about the client, as well as the insurers' general risk appetite. Insurers' quotations tend to be more competitive with the more information they have about the client. However, even with complete information, insurers may limit the level or type of risks that they are willing to cover. Insurers see value in brokers' ability to work with clients to manage their portfolio of insurance coverage, helping clients to engage with insurers based on their relative risk appetites and to reduce client's level of risk by providing advisory services:

"In many ways, a good broker doesn't buy insurance, they sell risk advice."

(Andrew Mair, Executive General Manager of Intermediaries, Suncorp)

Chart 2.15: Clients' understanding of their risk level, estimated by brokers



Source: Vero SME Insurance Index (2019)

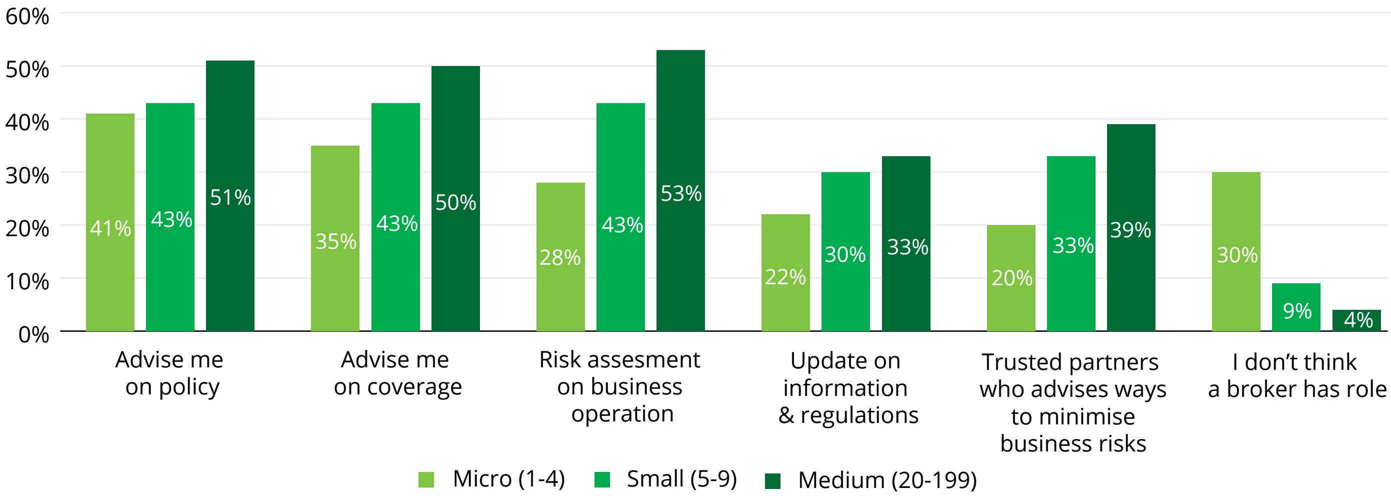
An example of this risk advice is the client and broker completing an annual 'floor walk' of a business premises to identify actions the client can take to minimise risk, and to ensure that they are complying with the terms of their insurance policy. Clients' examples of advice given by brokers during these on-site inspections include:

- Pointing out trip hazards
- Identifying the need to install a key-safe to reduce the risk of vehicle theft in a break-in
- Explaining that the forklift should only be used at the rear of the building as it is not road registered (any damage, should the forklift be parked on the road, would not be insured)
- Identifying any tools or equipment that are not currently listed in the policy but have been purchased through the year.[68]

SME clients see brokers as risk advisers who can provide risk management services, as well as assistance in selecting insurance (Chart 2.16).

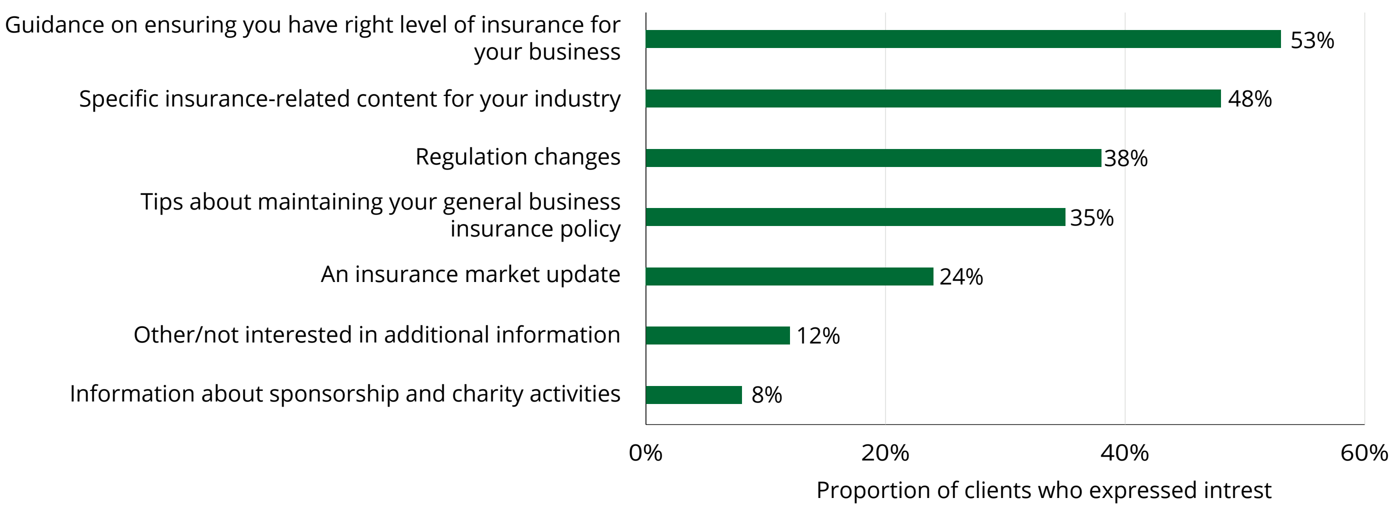
Medium businesses (20-199 employees) were more likely than small (5-19) and micro (1-4) businesses to see a role for a broker in preparing their business to face risks, and provide services other than insurance policy advice.[69] A significant portion (48%) of one brokerage's clients noted that they would seek industry-specific risk advice from their broker, reiterating the importance of the brokers' professional relationship with their client (Chart 2.17).

Chart 2.16: Client's perspectives on the role of their broker



Source: Vero, SME Insurance Index (2019).
Note: multiple responses allowed, sums to not add to 100%.

Chart 2.17: Topics which clients expressed interest in receiving further information about



Source: Insurance Advisernet (2019)

3. Value to insurers

Insurers service from brokers can include:

1. **Brokers can reduce insurers' administrative costs**. On average, brokers estimated that the process of selling insurance would take insurers 3.3 hours longer per policy if they only relied on a client sharing information, rather than via a broker.[70] Considering that more than 803,000 Industrial Special Risk (ISR) policies were arranged by intermediaries in 2019, a saving of 3.3 hours for each ISR policy equates to more than 2.6 million hours - or more than 1,380 full time equivalent (FTE) staff working for a year.
2. **Brokers can support insurers' product distribution and client reach**. On average in 2019, 38% of broker gross written premium was for clients operating outside of Australia's capital cities – either in regional areas or international jurisdictions.[70]
3. **Brokers can support insurer innovation**. On average, 13% of a broker's policies sold represent new market opportunities. 'Cyber risk' was identified by 63% of brokers as an example of an emerging risk policy they sold in 2019.[70]

These actions by brokers also have flow on benefits for clients:

1. Where brokers reduce the time taken by an insurer to collect client's information, it is expected that the administrative burden on the client will also be reduced. Where the insurer's administrative costs are reduced by using the broker channel, these cost savings may be passed onto the client in the form of lower premiums.
2. Where brokers support clients to increase insurers' reach and product distribution, this also increases client access and choice (see Section 2.2.3).
3. Where brokers can support insurers in developing innovative products, clients will benefit from products that are tailored, or specific to their industry (see Section 2.2).

As with any distribution channel, brokers represent a cost to insurers. Brokers receive a commission on sales and may reduce insurer sale margins through their role of facilitating competition in the market. However, brokers also bring value to insurers – in particular, by supporting the distribution and tailoring of complex products, and supporting insurers to more confidently assess client risks. Given that insurers tend to differentiate the kind of products sold through each channel, it is difficult to compare specific channel costs. This chapter explores the ways in which brokers provide value to insurers that outweigh their costs.

Brokers can support insurers to distribute their products more efficiently and effectively. Insurers can use brokers to minimise their product distribution and tailoring costs, access a greater range of clients, and support product innovation. These outcomes also have flow-on benefits for brokers' clients.

3.1 Saving resources for insurers

Brokers can save resources for insurers by:

- **Reducing the transaction costs** of engaging with clients directly
- **Reducing the time** which an insurer spends engaging with clients directly
- **Avoiding the costs of establishing or upscaling internal distribution networks**, and
- **Supporting client management** and the quality assurance of client provided information.

3.1.1 Working with clients

Brokers support insurers in connecting with clients across the insurance lifecycle. This includes:

- Building face-to-face relationships with clients
- Improving the efficiency of data collection
- Providing insurers with useful and relevant client data in order to efficiently price risk
- Providing clients with product information
- Facilitating product tailoring, and
- Supporting insurers to work with clients during the claims process.

Brokers save insurers time in every stage of the insurance lifecycle. Brokers provide insurers with an efficient channel to provide clients with product information, to measure customer risk, manage the sale of the insurance product (including to collect premiums for the insurer), and to provide other risk advice to clients.

Surveyed insurance brokers were asked to estimate the time taken to arrange a typical business insurance policy for an SME client. Brokers were then asked to consider how much time they thought it take an insurer to arrange the same policy, directly. On average, brokers estimated that their role in distributing products saved the insurer 3.3 hours per policy.[71] A breakdown of the components of this time saving is provided in Chart 3.1. Notably, brokers' estimates of the time these processes would take insurers changes considerably (see Chart 3.2).

Considering that more than 803,000 Industrial Special Risk (ISR) policies were arranged by intermediaries in 2019, a saving of 3.3 hours for each ISR policy equates to more than 2.6 million hours - or more than 1,380 full time equivalent (FTE) staff working for a year.

This represents a significant efficiency benefit that brokers bring insurers. Given that the average business tends to have a range of different policies beyond their ISR product, this is expected to be an underestimate of value of the total time saving.

Table 3.1: At each of these stages of the transaction, the brokers' service reduces costs to the insurer are the client

Transaction stages	Intermediary service	Cost reduction
Searching and matching	• Direct sales of information • Matchmaking • Market-making	• Search costs • Information costs • Opportunity cost of time
Availability of products and immediacy	• Compensation of variances in demand and supply	• Opportunity cost of time
Negotiating and contracting	• Strong bargaining position • Exploitation of differences in contract terms between supply and demand market side • To standardise contracts	• Negotiation costs • Information costs • Administrative costs • Opportunity costs of time
Monitoring and guaranteeing	• Expertise in determining product and service quality • Cross-sectional and temporal reuse of information • Guaranteeing high product quality	• Information costs • Monitoring and control costs • Costs resulting from uncertainty • Investment in expertise

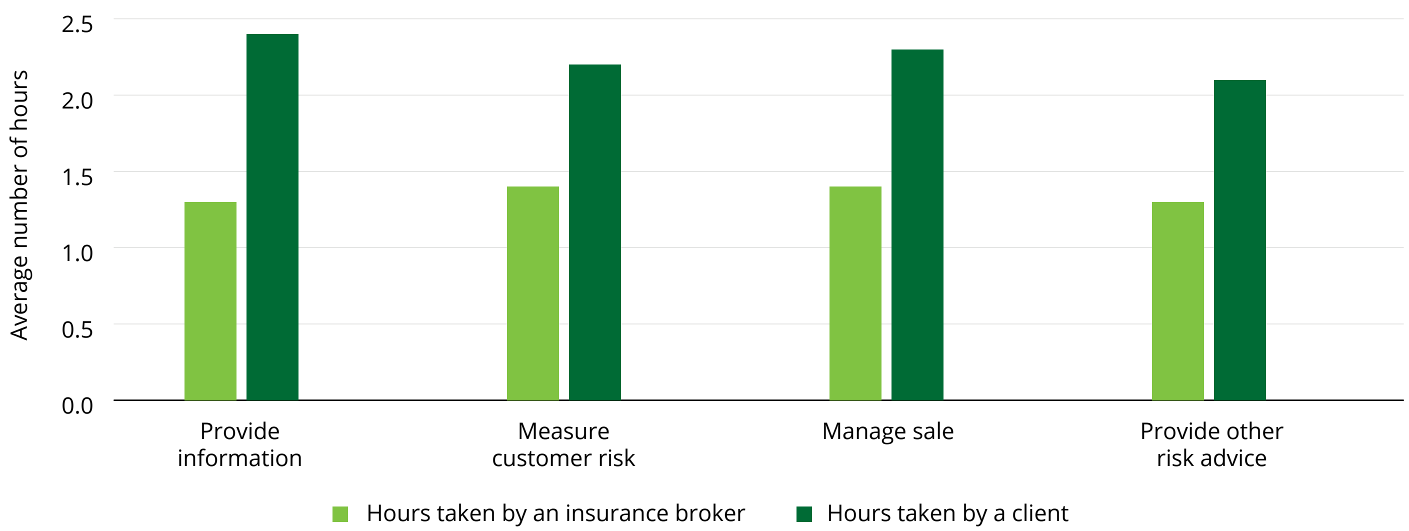
Source: Eckardt & Rathke-Doppner (2010)

Brokers estimated that they would save insurers time across each stage of a transaction:

- Brokers are specialists in translating consumer information into a format which is useful to insurers – often using specialist data entry platforms to facilitate transactions with insurers. Brokers estimated that they would save insurers an average of 57 minutes per client, by more efficiently accessing and summarising client information.
- Brokers' ongoing relationship with the client helps them to understand each client's risk profile. On average, brokers estimated that they would save insurers 50 minutes in measuring a client's risk level and 39 minutes in providing broader risk advice to clients.
- Brokers provide clients with a single point of contact for clients, and are a streamlined point of contact between the insurer and the client. Brokers estimated that they would save insurers an average of 55 minutes per client in managing the sale of an insurance product. Brokers may have access to specialist information management systems though their networks, which support efficiency in the data collection process.

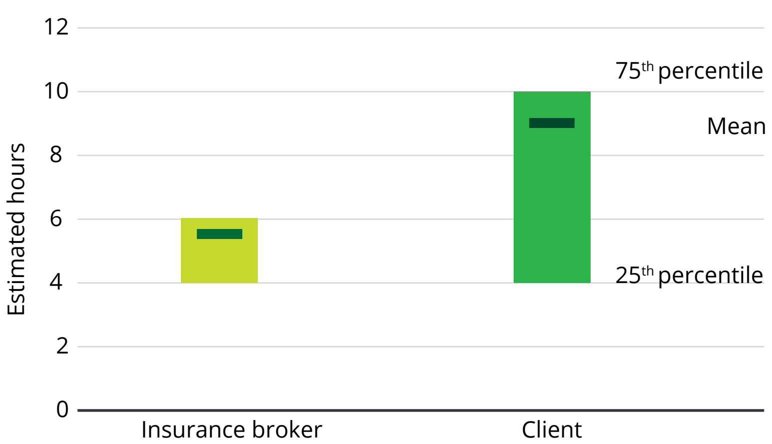
Insurers noted that the broker channel supports a range of operational efficiencies. Cost savings were particularly noted for more complex lines of insurance, where there is a higher rate of product tailoring (and more detailed information about the client is required).

Chart 3.1: Time to engage with clients, brokers vs insurers, average response



Source: Deloitte Access Economics, Brokerage Business Survey (2020)
Note: n=67. Single response.

Chart 3.2: Time to engage with clients, brokers vs insurers, interquartile range of responses



Source: Deloitte Access Economics, Brokerage Business Survey (2020)
Note: n=67. Insurance brokers were asked how long each process would take them, as compared to if the insurer contacted the client directly. This chart excludes instances where brokers did not provide a time response for both broker and insurer for each step. The range of the bars represent the interquartile range (the middle 50% of responses). The full range of responses for brokers was 1 hour to 6 hours, and for insurers, the range was 50 minutes to 10 hours).

Box 8: Insurers' approaches to direct insurance sales

While some insurers, such as Zurich, remain fully committed to the advice model for clients and therefore are entirely dedicated to the broker channel, other insurers offer online direct sales functions. Zurich is working with some broking partners to give the full omni-channel choice from phone, online and in-person experience direct to the client, but underpinned by the availability of broker advice.

The emergence of insurers' use of online sales platforms was not seen by insurers as presenting a threat to the traditional broker model. Some insurers saw the broker model as a distinct channel from online sales because:

- Clients' search costs remain high – they must visit each insurer's site, understand the differences between insurers' product offerings, and assess the relevance of each product to their own risk profile.
- Insurers remain unable to assess client's risk via these platforms, while online sales tools provide an efficient way to inform clients about products, they do not provide clients with an appropriate estimate of sum insured or bespoke advice which reflects their risk profile.

This suggests that clients who use broker and non-broker channels are distinct market segments. Brokers remain an important distribution network for those clients seeking a broader risk advice service.

3.1.2 Product distribution

In the absence of intermediaries, each insurance company would likely need to develop an alternative distribution network to reach its potential client base. This would present a large fixed cost for insurers and present a significant barrier to entry for new insurers.[72] Brokers provide insurers with a decentralised alternative to this distribution model. Some insurers only sell certain products through the intermediary channel– reflecting a reliance on brokers to act as a distribution mechanism (see Section 2.2.3).

In the six months to June 2019, 47% of gross premium written to APRA-authorised general insurers was placed by intermediaries.[73] Where 'intermediated' refers to insurance arranged by an Australian Financial Services Licence (AFSL) holder, this includes both brokers and insurer's agents. This proportion of intermediated business suggests that in the absence of intermediaries, insurers would have to more than double the scale of their direct distribution channels. Given that the product lines sold via the broker channel tend to be more complex and customised, the costs are likely to be more extensive for insurers to bring this function in-house.

Brokers can be a cost-efficient model for insurers to distribute products because:

- **Coordination costs are lower.** Brokers reduce the number of contacts between the client and the insurer.
- **There is division and specialisation of labour.** Brokers specialise in distribution of certain product lines and client types, and can regularly re-use information. This creates an efficiency for insurers who would otherwise need to train their own staff to perform a greater range of services.[74]

Where brokers are co-ordinated into formal or informal networks, this supports **knowledge sharing** across the industry. This can reduce the information sharing cost to the insurer, as network groups act as a single point of contact for large portions of the broker market (see Section 2.1.4, Box 3).

3.1.3 Managing clients' information

Brokers support insurers by managing clients' expectations and developing their understanding of the insurance market. Where the broker approaches an insurer, the insurer avoids the costs associated with informing each client about their products, as the broker has an understanding of the potential policy terms.

Insurers suggested that brokers reduce the instances of clients engaging with the insurer for product clarification and risk advice. In particular, brokers play a key role in setting the clients expectation of the claims process and outcomes in line with their level and type of cover. This also tends to limit the volume of client disputes (see Section 2.1.6).

Brokers also provide insurers with quality assurance of client-provided information, reducing errors or underestimates from the client. Brokers may have access to a range of valuation services to ensure that sums insured are an appropriate reflection of the client's risk. A survey of SME clients found that business owners who found evaluating insurance difficult are more likely to use a broker (49%) and more likely to have completed a formal evaluation of their risks (87%).[75] Less than half (39%) of SME clients noted that the found understanding policy wording easy, suggesting that brokers' technical support provides significant value in setting client expectations about their level of coverage.[75]

Broker sales tend to focus on more complex product lines (Section 2.2.2). This may be in part due to insurers' choice of product distribution channel – that is, the kind of products which insurers make products available for direct purchase. Research supports the existence of a 'separating equilibrium' – whereby insurers are more likely to use intermediaries for more complex products. This is driven by higher transaction costs associated with more detailed risk information required from clients for more complex cover.[76] This was reiterated by insurers in consultations.

3.2 Supporting product distribution and client reach

Brokers support insurers in product distribution by increasing insurer access to clients, and by increasing insurer client reach in regional areas.

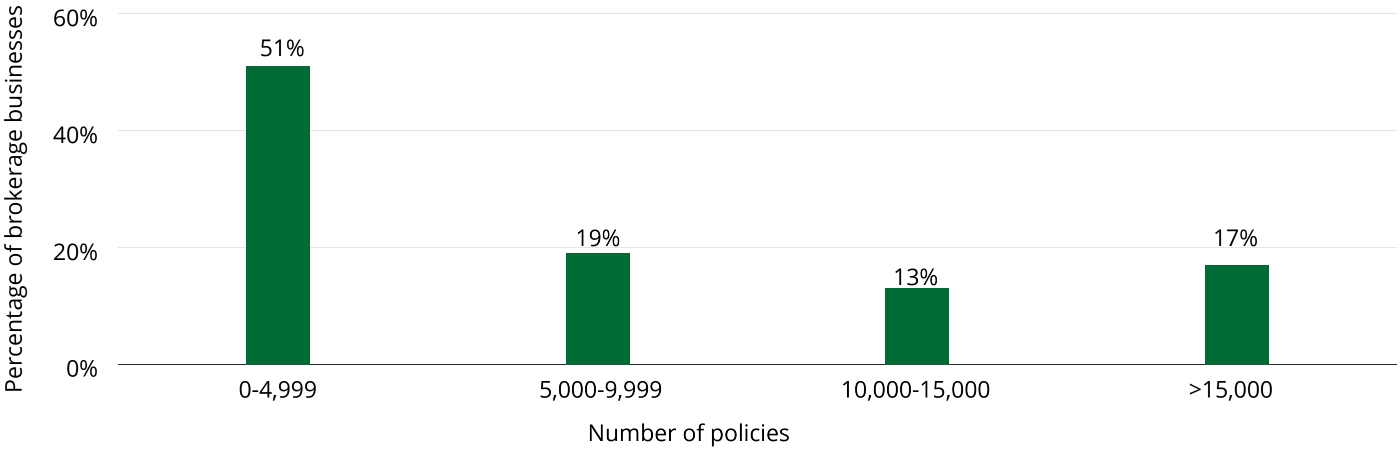
3.2.1 Access to clients

Brokers play a key role in supporting insurers' market presence. Insurance brokers are located in cities and regions across Australia (Figure 2.1). They service and support a range of clients across different geographic settings to provide an extensive, Australia-wide distribution network for insurance, and give clients across Australia access to the Australian and international insurance markets (see also Section 2.2.3).

Brokers support small and large businesses in accessing insurers, especially in accessing more specialist cover. The NIBA member survey shows that brokers' role in facilitating insurance is significant – the 75 surveyed brokerage businesses placed a total of 3,567,843 policies in 2019, to the value of more than $14 billion of GWP. Charts 3.3 and 3.4 show that the number of policies each brokerage arranges, and their value, varies. This reflects that brokers support a diverse range of businesses, with different risk profiles.

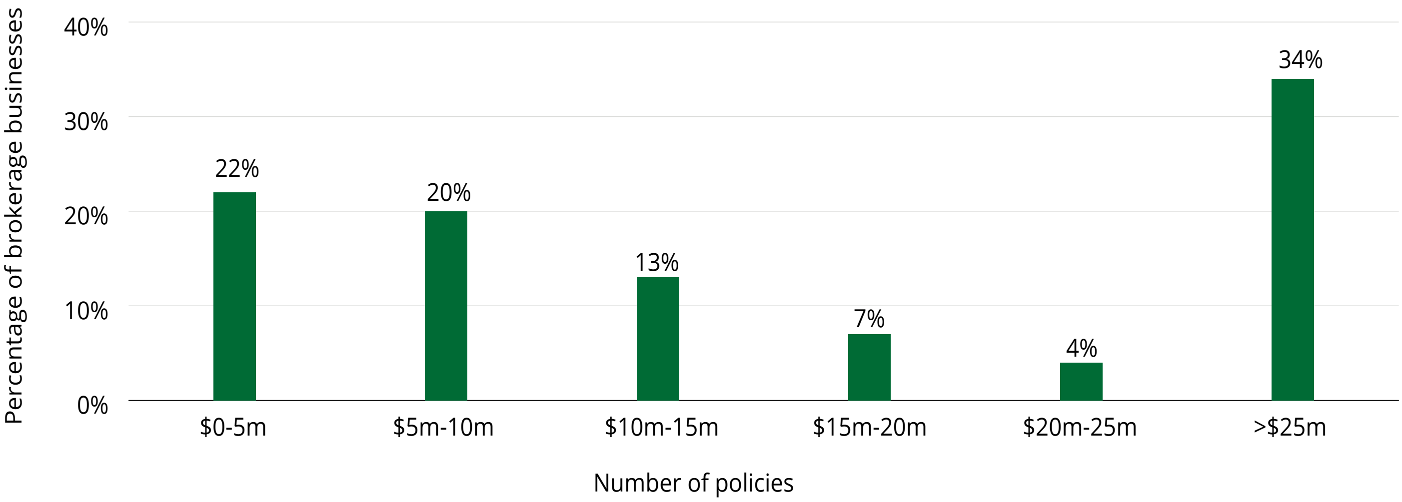
The proportion of SME clients who do not use a broker at all fell from 31% in 2018 to 24% in 2019.[75] The increasing use of the broker channel could reflect the emerging need for small businesses to purchase product lines which are only offered through the broker channel, such as cyber insurance, or a trend towards SMEs seeking more customised policies

Chart 3.3: Number of policies arranged per year, surveyed brokerage businesses



Source: Source: Deloitte Access Economics, Brokerage Business Survey (2020)
Note: n=78. Single response.

Chart 3.4: Value of GWP arranged per year, surveyed brokerage businesses



Source: Source: Deloitte Access Economics, Brokerage Business Survey (2020)
Note: n=78. Single response.

3.2.2 Regional presence

Insurance brokers also support clients outside their immediate geographic location, by providing personalised services with clients in order to align insurers' products to their specific needs and circumstances.

In this way, insurance companies are able to operate without extensive distribution networks of their own. In particular, brokers allow insurers to have a broader footprint and support their access to regional and specialist markets. Almost all surveyed brokerage businesses (98%) provided services to a regional area in at least one state or territory (Chart 3.5).

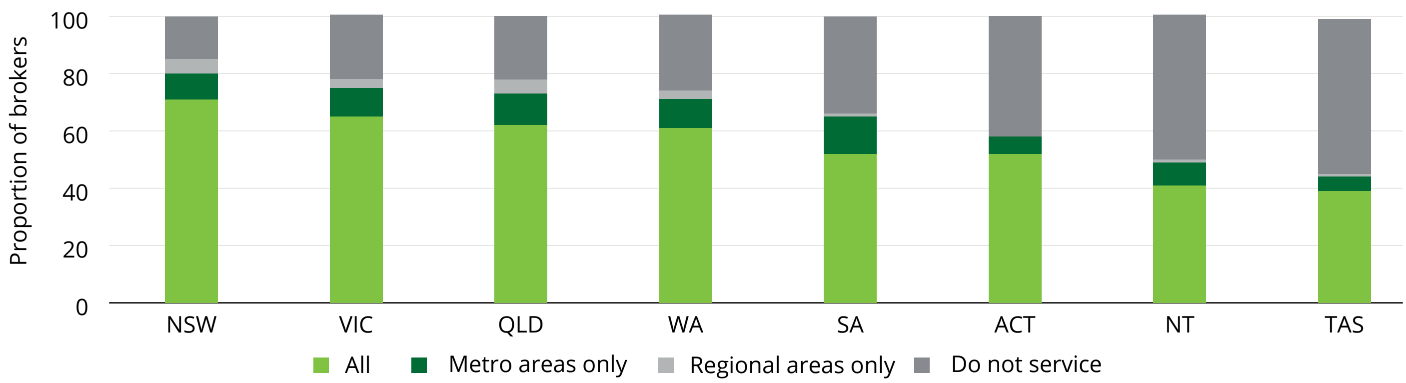
Brokerage businesses estimated that they arranged $48 million in GWP for clients outside of Australia's capital cities in 2019. On average, 38% of a brokerage's GWP in 2019 was for clients operating outside of Australia's capital cities. This may include both clients in regional areas in Australia and in international jurisdictions.

Chart 3.6 shows that brokers' business tends to be concentrated either within or outside capital cities – very few brokers reporting an equal mix between these markets. This reflects that some of the surveyed brokers are local specialists.

While the majority of brokerages (58%) service Australia only, a significant portion (42%) of brokerage businesses also service some international markets. The process of distribution on behalf of locally authorised and overseas insurers also gives Australian clients access to global insurance markets, and gives foreign insurers access to risks in Australia (see Section 2.2.3). This process is often facilitated by underwriting agencies, who have authority to underwrite risks and issue insurance policies on behalf of locally authorised and foreign insurance companies.

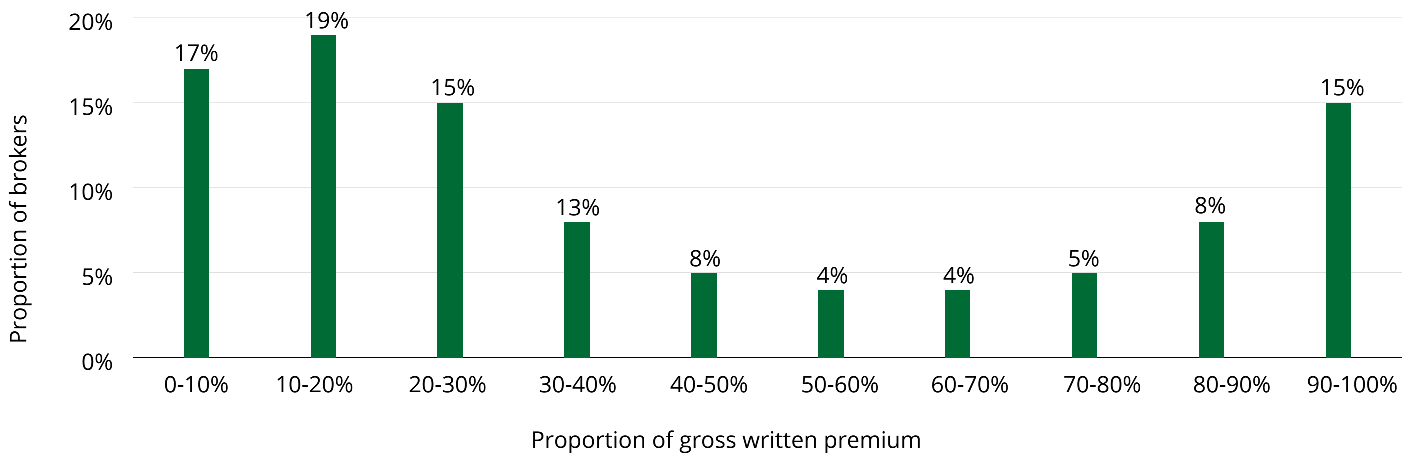
Overall, this adds to the supply of cover into the Australian market, thereby having a competitive element, and benefits both clients and insurers (also see Section 4.1).

Chart 3.5: Regional broker servicing, surveyed brokerage businesses



Source: Deloitte Access Economics, Brokerage Business Survey (2020)
Note: n=78. Single response per jurisdiction.

Chart 3.6: Broker GWP to clients outside of capital cities, surveyed brokerage businesses



Source: Deloitte Access Economics, Brokerage Business Survey (2020)
Note: n=78. Single response.

3.3 Supporting insurer innovation

Brokers support insurer innovation by providing advice to insurers about emerging demand, and introducing new products to an insurers' client base.

3.3.1 Product refinement

Insurers identify gaps in the insurance market by analysing data from client claims, as well as working with their distribution networks to understand clients' changing needs. Brokers support insurers in understanding the market better, in terms of new risks, and in the types of coverage sought by clients, across industries. This includes providing insurers with feedback (including from clients) which can maintain or improve the insurer's competitive position in specific markets.

While the introduction of entirely new product lines is rare, 'cyber risk' coverage is a key example of a recently developed solution to an emerging risk. The demand for cyber risk insurance was brought to insurers by both brokers and reinsurers.[77]

Brokers assist insurers to identify market gaps, providing an opportunity for insurer product innovation. More often, the broker is involved in supporting the insurer to calibrate product details and specific wording. This might include the insurer working with a broker to develop product wording that can be used across a range of businesses (avoiding the cost to the insurer of developing multiple different, detailed product items). On the other hand, brokers might be engaged by an insurer to refine client specific manuscript wording on an ISR product, where the negotiation would begin with the intermediary communicating the client's specific needs to the insurer.[77]

3.3.2 Product innovation

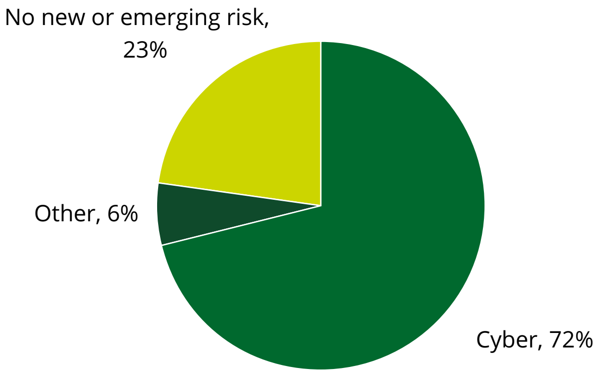
Brokers play an important role in developing their clients' understanding of insurers' different product offerings. This includes introducing new product lines and explaining their value to clients. On average, 13% of a broker's policies sold in 2019 represented a new market opportunity for insurers. 'Cyber risk' was identified by 63% of brokers as an example of an emerging risk policy they sold in 2019.

Brokers noted other emerging product opportunities that they had identified to insurers and/or sold to clients. These included:

- Products to cover emerging risk areas, such as management liability coverage, professional indemnity coverage, and environmental liability coverage.
- Products specific to some industries or business types, such as product recall coverage, trade credit insurance for bad debts, and pollution coverage for construction businesses.
- Products to cover emerging industries, such as Airbnb and rideshare operators.

Notably, not all emerging risks are resolved by a risk transfer to the insurer (Section 4.1). The broker acts as a risk adviser for their client more generally, and may play a significant role in supporting clients to mitigate and manage risks (Section 2.6).

Chart 3.7: Types of policies for emerging risks, surveyed brokerage businesses



Source: Deloitte Access Economics, Brokerage Business Survey (2020).
Note: n=71. Considers risks which brokers identified they had sold in 2019.

4. Value to the economy

Insurance brokers support both clients and insurers to achieve better outcomes. Collectively, these benefits support the broader economy and lead to better market outcomes.

1. **Brokers facilitate an efficient insurance market**. By reducing uncertainties for insurers and closing information gaps that allow for more appropriate pricing and product matching, and by encouraging greater competition.
2. **Brokers facilitate better risk management and economic stability**. Through better product matching, faster claims receipts and broader risk advice.
3. **In 2018-19, brokerage businesses employed almost 15,000 FTE workers, and contributed $2.6 billion directly to the Australian economy**. A further indirect economic contribution of 5,000 FTE workers and $0.9 billion in gross value added.

The insurance broking industry contributed an estimated $2.6 billion to the Australian economy in 2018-19 and employed almost 15,000 FTE workers. Brokers facilitate a more efficient insurance market and risk management, which supports economic recovery and stability across a range of sectors and across society.

4.1 Facilitating an efficient insurance market

Efficient risk management means that risks are held by those who are best able to bear that risk, and do so at the lowest cost. The result is that different risks may be best borne by the individual client, an insurer or the government. An efficient insurance market will distribute (through pricing and product design) those risks accordingly, and seek to limit instances of over or underinsurance.

Brokers facilitate this efficient placement of risks in the economy by limiting uncertainty and closing information gaps between players in the market, and encouraging competition between insurers.

4.1.1 Reducing information asymmetry

In the market for insurance, the insurer will typically have limited information about an individual or business and the specific nature of their risks. While the insurer may assess average levels of risk or the distribution of risks, insurers from the outset may not always have sufficient information available to understand the precise risk profile of any individual customer.

This means, that insurers will either need to ascertain this risk information (at a cost), or in the absence of better information, insurers may price the coverage with a larger premium to account for uncertainties. This results in lower risk customers being more likely to be overpriced, which may result in a lack of coverage – that is, these customers may choose to not purchase insurance or may purchase insufficient coverage for their needs.[78]

Brokers can help to close these information gaps or information asymmetries, by providing insurers with more appropriate information and acting as a guarantor to that information. As brokers will need to more regularly and repeatedly engage with insurers, it will typically be in their best interests (and part of their professional duty) to maintain trust with the insurer and do so by providing accurate and reliable information on potential clients.

By providing insurers with greater information, this allows insurers to adjust their pricing or coverage to accommodate the risk profile of a potential customer. The result is a more efficient insurance market, whereby lower risk customers receive lower prices, and higher risk customers with greater coverage needs can be provided that more costly coverage. That is, risks are borne by those who are best suited to manage and bear that risk at the lowest cost. Importantly, this market efficiency results in greater access to appropriately priced coverage for all consumers. Of course, pooling still exists and not all risks are predicable.

These types of market inefficiencies and their solutions are commonly in economics studies as adverse selection, moral hazard and/or information asymmetry problems.

Research has shown that insurance intermediaries like brokers are more efficient and economical in collecting information on risk profiles and insurance needs, and help to reduce transaction costs for the benefits of both insurers and customers, thereby supporting better outcomes for both parties and facilitating a more efficient market.[79]

Consultations with insurers supported this market efficiency argument. Insurers referred to brokers as experts in understanding their clients' risks and coverage needs, which insurers would otherwise be unable or find costly to observe.[80]

"When a broker provides detailed information about a client's risk, we can price it more accurately- through the right application of the appropriate risk factors deductibles or coverages. Brokers make a real difference in sharing client stories with the insurers to make sure they can get a specialist or well-suited product and competitive price so that in the event of a claim, there isn't any confusion."
(Anthony Pagano, Head of Commercial Intermediaries, Vero).

4.1.2 Facilitating competition

Brokers support more competition in the market for insurance, through a variety of services and capabilities, including their knowledge of the sector and products and their access to a broader set of products (including international products) (see Section 2.2.3). Independent intermediaries have been shown to distribute product information better and more widely than exclusive agents (who would be limited in their markets).[79]

In addition, brokers will compete with each other to access clients. Due to limited price competition in the insurance intermediation market, brokers will often need to compete via horizontal and vertical product differentiation – that is, the breadth of their services, and the quality and cost of these services.

In the absence of competition, the complexity between insurance products typically results in relative high degrees of customer inertia and a reliance on familiar brands, which can result in higher premiums for customers.[81]

Ultimately, this results in a more competitive and dynamic insurance market, whereby insurers must compete and innovate to maintain their market share. This greater competition leads to better prices and quality for consumers (see Section 2.3.1), but also a more resilient, well-functioning and stable insurance market, which supports the broader economy.

Furthermore, the distribution of broker offices across regional areas, supports greater servicing, choice and access to insurance for regional clients, which in turn supports the stability of regional economies (see Section 5.2).

4.2 Facilitating risk management and economic stability

Insurance brokers are used widely across all businesses, and support clients to find and purchase the right type of cover (including new risks) and the right amount of cover, action and access claims faster, and adopt better risk management practices.

"Across all segments of commercial lines in Australia (from SMEs to much larger, more sophisticated corporations in the ASX 20), those organisations must see value in brokers – because they all use them, engaging brokers to arrange coverage and often utilising them for wider risk advice."

(Elliot Hill, General Manager - Sales & Relationship Management, Commercial Lines, QBE Insurance)

4.2.1 Product matching

Clients are supported by their broker to undertake more appropriate coverage for their unique needs, including levels of cover (Section 2.2.1) and types of coverage (Section 2.2.2). This also includes industry-specific risk solutions (Section 2.2.4) and coverage for new and emerging risks (Section 2.2.3). Ultimately, these services support better product matching for clients, where their risks are more appropriately covered by their insurance product.

This product matching or product appropriateness means that clients will not only be resilient and more likely to withstand shock incidents, but they will also be more likely to recover faster and return to 'business-as-usual' with the support of their insurance coverage. This not only supports the business itself, but its workers and local economy.

In particular, where an incident impacts an entire region (e.g. natural disasters), businesses with more appropriate coverage can recover quicker and help support the recovery of a local economy. It can also reduce the reliance on additional government support and expenditure to support economic recoveries.

Traditional insurance products are not always appropriate in a changing economy and for new businesses running new operating models. For example, there are emerging overseas models for the 'gig economy', with new flexible pricing models being constructed for gig economy businesses, where standard Business Pack products would otherwise not be appropriate.[82] More appropriate product matching for these businesses, not only support their operations, but also support workers and consumers of an increasingly growing market.

Furthermore, the prevalence of 'digital businesses' means that while the traditional Business Pack policy is typically the best solution for many customers, some insurers are increasingly relying on adapting their products to cover more risks in the 'digital age'.[83] Brokers can help facilitate that product matching and ultimately ensure more appropriate coverage across the broader economy and a changing economy.

4.2.2 Claims assistance

In addition to better product matching and risk coverage (i.e. pre-sales services), brokers provide ongoing support to clients through a range of post-sales services (see Figure 1.2). In particular, in the event of an incident, brokers provide claims advocacy. This includes the task of making a claim, as well as working with insurers to ensure that the appropriate assistance is provided and provided quickly (see Section 4.2.2).

The result of this claims assistance is that not only do clients have the right level and type of coverage, but in the event of an incident, brokers will support clients to receive this assistance and cashflow in a timely manner. This can support the resilience of the business, and its ability to maintain staff and operations, meet debtor requirements, and ultimately return to business-as-usual more quickly. At the extreme, timely claims assistance can help prevent businesses from closing due to shock incidents and the resulting cashflow issues. Brokers can also support clients in understanding the extent of their cover to ensure that their claim aligns with the full coverage they are entitled to (see Section 2.5.3).

As discussed in Section 5.1, a broker's claims assistance can support the resilience of local economies and industries, in particular, where an incident impacts a region, or where a business is a large employer or integral part of a local economy.

4.2.3 Risk education

In addition to supporting product matching and claims assistance, brokers more broadly help to educate individuals and businesses on their current and emerging risks, risky behaviours or practices, and how to better manage their risks in day-to-day activities.

This can help to inform clients about the types and levels of coverage they require (as part of product matching, see Section 2.2), but can also encourage clients to adopt new practices or engage in different activities that help to manage and minimise their own risks.

For example, brokers encourage clients to review their risks and undertake more risk analysis of their regular activities: 43% of clients with brokers said they complete a risk analysis every 1-3 months, compared to 32% who purchase insurance direct.[84] In addition, more than half of medium businesses (53%) said that brokers were their trusted risk adviser, in addition to providing insurance broking services.[84]

Often incident mitigation and prevention activities will be lower cost and less disruptive than recovery efforts, and in many instances, greater risk management and reducing higher risk behaviours can greatly support this. This supports greater stability for businesses, individual and workers, and local economies.

In addition to services provided directly to clients, many brokers also provide risk education services more broadly, through information sharing, industry and community events, among other activities, such as email newsletters, social media and word of mouth.

4.3 A significant direct and indirect contribution to the Australian economy

Insurance broker businesses make a significant contribution to the Australian economy, by paying wages, making profits, and employing workers. The industry also facilities economic activity through its purchases of intermediate goods and services.

The insurance brokerage industry has grown slightly over the past five years. This revenue growth has been driven by rising insurance premiums, as well as an increasing preference for the broker channel, particularly among clients seeking commercial general insurance products.[85]

The growing use of insurance brokerage has increased the economic contribution of the industry itself, which consists of the value added by its operations and employment across the economy.[86] The industry generates economic activity through its value added and employment both directly and indirectly:

- **Direct value added** captures the wages and gross operating surplus of the industry's own operations.
- **Indirect value added** captures the flow-on economic activity associated with purchases of intermediate goods and services by the industry.

Deloitte Access Economics modelling estimates that the insurance broking industry supported $3.5 billion of economic activity and over 20,000 full time equivalent (FTE) roles across the Australian economy in 2018-19, as shown in Table 4.1 [87]

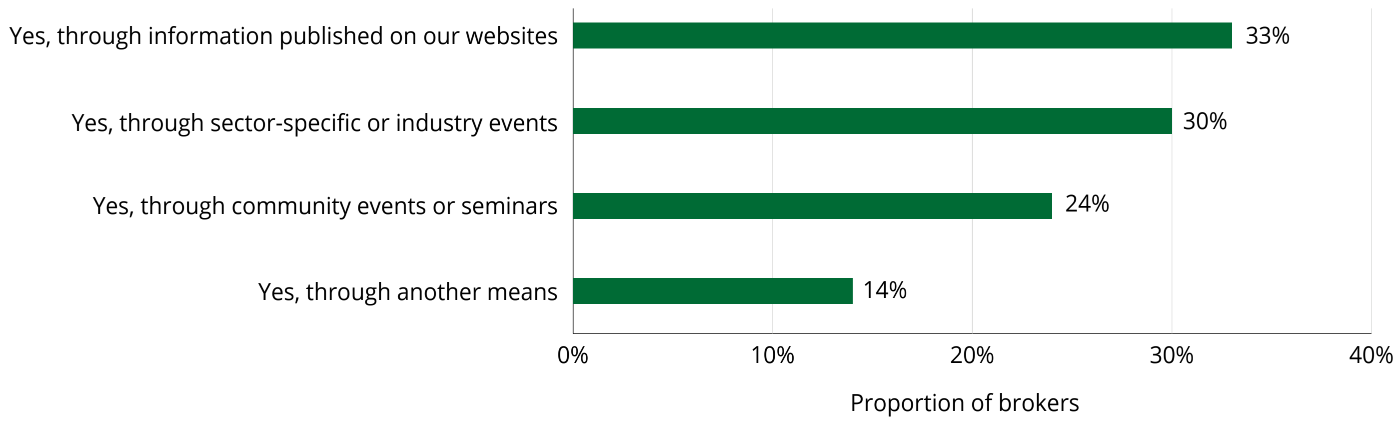
The industry itself directly contributed $2.6 billion and supported nearly 15,000 FTE roles. This suggests the economic activity undertaken by the insurance broking industry is roughly equivalent to the contribution of each of the gas supply and creative arts industries in Australia, which each had just over $2 billion gross value added in 2017-18.[88]

The industry also indirectly supports economic activity in other industries in the economy through purchases of intermediate outputs. For instance, payments for other professional service (e.g. legal services or marketing services), telecommunications equipment, and payments for office space are considered revenue for these sectors. The sum of these purchases is the indirect value add of the industry, which equated to nearly $900 million of economic activity in 2018-19.

These purchases supported more than 5,300 FTE roles in other sectors of the economy in 2018-19, so for every FTE role in the in surance broking industry, another 0.4 FTEs are employed in indus tries elsewhere in the economy.

While not specifically counted in the 'value added', insurance brokers collect taxes for different levels of government. These include the emergency services levy, stamp duty and goods and services tax.[89]

Chart 4.1: Provision of education services by brokers to the general public



Source: Deloitte Access Economics Survey – brokerage businesses (2020).
Note: n=81. Multiple responses allowed.

Table 4.1: Total economic contribution, 2018-19

	Direct	Indirect	Total
Gross operating surplus ($billion)	0.9	0.4	1.2
Labour income ($billion)	1.7	0.5	2.2
Value added ($billion)	2.6	0.9	3.5
Employment (FTE roles)	14,718	5,324	20,042

Source: Deloitte Access Economics. Note: Figures in table may not add up to total due to differences in rounding

5. Value to the government and broader society

Brokers can support clients in disaster recovery, by arranging appropriate coverage and assisting with claims management. This can support economic recovery and may reduce costs that might otherwise fall on government. Brokers provide education services to communities, to improve society's general risk resilience, and financially support the communities in which they operate.

5.1 Disaster relief, advocacy and policy advice

Brokers provide value to clients in disasters. This includes supporting clients with the damage assessment and claims preparation process, and supporting clients in contacting their insurer to lodge a claim.

This is particularly true in the context of natural disasters and in regional areas. Brokers' ability to streamline the claims process can support a timely payout. This can play a significant role in supporting communities to rebuild after disasters.

In 2019, catastrophic events in Australia such as bushfires, cyclones, and floods led to losses estimated at $2.8 billion.[91] Of this, $1.3 billion relates to the bushfires which spread across New South Wales, Queensland, Victoria and South Australia at the end of 2019.[92]

Insurance brokers play an important role in these extreme events, as they are often among the first to the scene, to work alongside loss assessors and help their clients navigate the claims process. During the 2019/20 bushfires, NIBA established the Bushfire Community Support Initiative to support its members advise and assist victims with their insurance claims, including victims who had not been using an insurance broker. Participating brokers will and have been providing this assistance as a free community service.[93]

Some insurance brokers, claims specialists and other financial advisers have also listed their services as part of the Insurance Council of Australia's bushfire trades register, set up to support communities affected by the recent bushfires.

Claims payouts provide stimulus to local economies and can play a significant role in offsetting the initial impact of disaster events. Particularly in smaller regional areas with economies that are less able to absorb the economic losses of a disaster, timely claims payouts can encourage a faster return to normal economic activity.[94]

5.2 Solutions for difficult-to-insure clients

Brokers play a key role in finding appropriate insurance for difficult-to-insure risks, particularly in markets where there is limited access to insurance products. Where brokers can work with clients and insurers to reduce instances of underinsurance or non-insurance for difficult-to-insure risks, this reduces the burden on government and society. Where risks cannot be placed with insurers, government and society act as 'insurers of last resort' by providing financial support to communities for disaster relief recovery.

The role of brokers in helping clients to access insurance has been noted by the ACCC in the first interim report of the Northern Australia Insurance Inquiry:

"Taken together, the use of intermediaries within northern Australia is far greater than for the rest of the country, with insurance brokers particularly utilised. This suggests that finding appropriate or alternative products within northern Australia is challenging and that there is a greater reliance on brokers to do this."

(Australian Competition and Consumer Commission)

Box 9: the value of a broker in disaster recovery

Grace Zatta operates a farming property in Ingham, North Queensland. Her property was extensively damaged during the 2019 Townsville floods. Within hours of the flooding, Grace had contacted North Queensland Insurance Brokers (NQIB), who were immediately available to provide support. The claims lodgement process began within 48 hours of Grace making contact with her broker.

NQIB had a specialist claims assessor flown in from Western Australia to support their clients in a time of high demand for these services. NQIB also organised co ordinated contractors to commence repair work. Grace noted that accessing these services in the absence of an insurance broker would have been particularly challenging to arrange directly, in the midst of a widespread extreme weather event.[90] The brokers also appointed a project manager to manage building repairs at Graces' property, which streamlined the repair process.

The broker also supported Grace in an extended period of negotiation with her insurer about the level of cover she was eligible for because of a dispute about the distinction between a 'flood' and a 'storm'. Her broker was also able to negotiate an additional $10,000 in repairs than initially proposed by the insurer. This involved engaging another specialist assessor to provide a detailed report to accurately identify repairs needed at a specific and granular level. Grace mentioned the value of having a broker to advocate for her throughout the process and to minimise the level of direct engagement required from her.

The report notes client's concerns about a lack of genuine choice for insurance in these regions. While some clients tried to negotiate with insurers directly, or switch between insurers to find cheaper insurance, these activities were reported to have little impact on premiums. The inquiry notes that some individuals reported success using brokers to obtain insurance in an otherwise difficult-to-insure area:[95]

"In submissions to the inquiry and at the public forums, many residents expressed views about a lack of genuine choice for them in northern Australia. People discussed their efforts to negotiate with insurers, switch between insurers and use brokers to find cheaper insurance. However, they generally found that these activities had little impact on their premiums. Some individuals reported success using brokers to obtain insurance in an otherwise difficult-to-insure area, however, not everyone had the same success."

(Australian Competition and Consumer Commission)

Where brokers can provide clients in these areas with access to insurance, there is a social and economic benefit related to clients' ability to financially cover from disaster events.

Brokers also have the knowledge and capacity to place business with overseas markets when local markets are difficult to access, thereby giving local clients access to the global insurance market. Business commonly placed overseas includes policies relating to very large risks, highly specialist risk types and risks where policies are not available in the Australian market. In some cases, the client requires Australian risks to be included as part of a global insurance program located outside Australia (see Section 2.2.3).

5.3 Supporting local communities

In addition to serving their clients' insurance needs, brokers play an active role in their communities.

On average, the brokerage businesses across Australia donate over $25,000 per year to charitable and other social causes. Each surveyed brokerage also spends an average of $20,000 in their local communities, by sponsoring events or fundraisers. Just under a quarter (23%) of surveyed brokerage businesses also made a positive impact on their communities through social impact investing. On average, these brokerages invested more than $10,000 in social enterprises.

In addition to monetary donations, brokers also provide their time to volunteer for community or charitable causes. These contributions include providing in-kind services to local communities (for example, arranging insurance for a local sporting team without taking commission). On average, surveyed brokerages reported an average of more than 400 staff hours in volunteering for charities, and more than 150 additional hours in volunteering for other causes. Volunteering initiatives are more concentrated in some brokerages, suggesting the value of larger businesses organising programs for employees to donate their personal time for volunteering and assisting non-profit organisations.[96]

Appendix A: Survey questions

A.1. Survey to individual brokers

1. Individual profile

1.1 How many years of experience do you have as an insurance broker? To the nearest year

1.2 Where is your usual office located? Please specify a postcode.

2. Qualifications

2.1 Which qualifications do you hold that are directly related to insurance broking?
Select all that apply.

2.2 Which best reflects your highest level of educational attainment? Choose one.

2.3 Are you accredited as a Qualified Practicing Insurance Broker (QPIB)?

2.4 Which industry network/cluster are you aligned with? Choose one.

3. Clients

3.1 Consider the clients you gained in FY2019 (or if none, consider your newest clients), before you became their broker, what proportion of these clients were

- Underinsured
- Overinsured
- Not insured at all (Existing businesses with no prior cover)
- Not insured at all (New businesses)
- Had about the same level of insurance
- Don't know / unsure of previous insurance

3.2 Consider your latest new client who was previously not using an insurance broker.

a. Which best explains their **level of cover**, prior to engaging with you? Select one option.

- Overinsured for their level of risk
- Appropriately insured for their risk
- Underinsured for their level of risk
- Not insured at all
- Don't know/not applicable

b. Which best explains the **price of their insurance policy**, prior to engaging with you?

- Paying more on their insurance policy than they are today (compared to general inflation in insurance products)
- Paying about the same for their insurance policy
- Paying less on their insurance policy than they are today
- Don't know/not applicable

c. If the price changed, what are the factors influencing a change in price for their new policy? Select all that apply.

- Different level of cover which now better reflects their risk
- Their policy needs have since changed
- New policy that was previously not available to them
- They are now covered under a customised policy
- A new policy with a lower price from a different insurer
- Don't know/not applicable

3.3 What proportion of your clients do you think have a good understanding of their risks (i.e. do not need advice, but seek assistance with obtaining the right cover for their needs, as well as claims support)? [three percentages should add to 100%]

- Very confident my clients understand their risk
- Somewhat confident my clients understand their risk
- Not at all confident my clients understand their risk

A.2. Survey to brokerage businesses

1. Business profile

1.1 Where is your head office in Australia located? Please specify a postcode.

1.2 How many years has your business operated in the insurance broking industry? To the nearest year.

1.3 Among your staff who work as insurance brokers, how many years of experience do they have as insurance brokers (on average)? To the nearest year.

1.4 Which of these areas do you service? Please select only one option per row.

All NSW	Metro NSW only	Regional NSW only	Do not service NSW
All VIC	Metro VIC only	Regional VIC only	Do not service VIC
All QLD	Metro QLD only	Regional QLD only	Do not service QLD
All SA	Metro SA only	Regional SA only	Do not service SA
All WA	Metro WA only	Regional WA only	Do not service WA
All NT	Metro NT only	Regional NT only	Do not service NT
All ACT	Metro ACT only	Regional ACT only	Do not service ACT
All TAS	Metro TAS only	Regional TAS only	Do not service TAS
Any international	No international		

1.5 What was the total number and value of all policies (by gross written premium) that your clients purchased through your services in FY2019? Please estimate to the nearest whole number.

1.6 What proportion of the above gross written premium (arranged in FY2019) was for clients operating outside of capital cities? To the nearest percent.

2. Value to clients

2.1 What is the value of payouts from claims that your business facilitated for clients in FY2019? If you do not have FY2019 data, please respond for the most recent available financial year. To the nearest dollar.

2.2 Assume that an SME client is seeking a typical business insurance policy. How many hours (on average) does each stage of the client experience take for a broker, and how long do you think it would take the client on their own? Please approximate the number of hours.

	Hours it would take an insurance broker	Hours you think it would take a client
Understanding the client's business and their risk profile	[Insert number of hours]	[Insert number of hours]
Identifying the ideal policy for the client	[Insert number of hours]	[Insert number of hours]
Finding and comparing three insurers' product offerings	[Insert number of hours]	[Insert number of hours]
Applying for a product	[Insert number of hours]	[Insert number of hours]
Making a claim	[Insert number of hours]	[Insert number of hours]
Annual review, reassessment and refinement of cover	[Insert number of hours]	[Insert number of hours]

2.3 What is your average net promoter score (NPS) from clients? Please enter a number between 0 and 10, where 10 is the highest level of satisfaction.

3. Value to insurers

3.1 Consider any new or emerging risks or market gaps you presented to or identified with insurers in FY2019, what proportion of your policies sold represent these new market opportunities? Approximate to the nearest 10 percentage points.

3.2 If you answered with a positive percentage above, can you please list some examples of new risks?

3.3 Assume that an SME client is seeking a typical business insurance and you are their broker. How many hours (on average) would it take a broker to work with the insurer at each step of the process? How long would it take the insurer to complete the process outside of the broker channel? Please approximate the number of hours.

	Hours it would take an insurance broker	Hours you think it would take an insurer
Provide information about client to the insurer in a useful format	[Insert number of hours]	[Insert number of hours]
Measure customer risk	[Insert number of hours]	[Insert number of hours]
Manage sale	[Insert number of hours]	[Insert number of hours]
Provide other risk advice	[Insert number of hours]	[Insert number of hours]

4. Value to the broader economy, government and society

4.1 Does your business provide education services to the general public and businesses (that are not your clients) about disaster resilience or prevention and/or risk mitigation? Choose all that apply.

- Yes, through community events or seminars
- Yes, through sector-specific or industry events.
- Yes, through information published on our websites
- Yes, though another means (please specify)
- No, only to clients who need or request this information

4.2 Please quantify the value of the following contributions for FY2019. Leave blank any that are not applicable.

Donation to charities (Australian dollars)	[Insert value in whole Australian dollars]
Social impact investment (Australian dollars)	[Insert value in whole Australian dollars]
Sponsoring community events or fund raisers (Australian dollars)	[Insert value in whole Australian dollars]
Other (Australian dollars)	[Insert value in whole Australian dollars]
Volunteering time for community or charitable causes (total staff hours)	[Insert whole number of hours per year]
Other (total staff hours)	[Insert whole number of hours per year]

Appendix B: Economic contribution analysis

Economic contribution studies are intended to quantify measures such as value added, exports, imports and employment associated with a given industry or firm, in a historical reference year. The economic contribution is a measure of the value of production by a firm or industry.

Data provided for the economic contribution study

The estimates of the economic contribution of the insurance industry were based on survey data of six major businesses of the industry.

Each business was requested to provide 2018-19 data on the following:

- Operating revenue (related to insurance broking activities)
- Operating expenditure and its components (excluding interest, tax, depreciation and amortisation)
- Full time equivalents employed

To estimate the entire insurance industry, the share of the survey respondents makeup of the industry needed to be estimated to scale up the economic activity not captured through the survey. This market share was estimated using Gross Written Premium (GWP). The GWP of the six businesses equated to 52% of the GWP of the entire industry.

There is a notable difference between the networks and the insurance broking businesses which provided data for the economic contribution study. While the proportion of brokers associated with networks is estimated at 70% of the industry, only a portion of these brokers are owned by the networks (equity brokers). The data provided for the economic contribution study relates only to the equity brokers associated with brokerages which also operate industry networks.

The proportion of operating expenditure spent on items such as labour, IT equipment and other professional services from the survey respondents was assumed to be the same for rest of the industry. This profile and the imputed expenditure from the rest of the industry was used to calculate the indirect contribution of the industry.

B.1. Value added

Value added is the most appropriate measure of an industry's economic contribution to gross domestic product (GDP) at the national level, or gross state product (GSP) at the state level.

Other measures, such as total revenue or total exports, may be easier to estimate than value added but they 'double count'. That is, they overstate the contribution of a company to economic activity because they include, for example, the value added by external firms supplying inputs or the value added by other industries.

B.2. Measuring the economic contribution

There are several commonly used measures of economic activity, each of which describes a different aspect of an industry's economic contribution:

- Value added measures the value of output (i.e. goods and services) generated by the entity's factors of production (i.e. labour and capital) as measured in the income to those factors of production. The sum of value added across all entities in the economy equals gross domestic product. Given the relationship to GDP, the value added measure can be thought of as the increased contribution to welfare.
- Value added is the sum of:
  - Gross operating surplus (GOS). GOS represents the value of income generated by the entity's direct capital inputs, generally measured as the earnings before interest, tax, depreciation and amortisation (EBITDA);
  - Labour income. It represents the value of output generated by the entity's direct labour inputs, as measured by the income to labour;
  - Tax on production less subsidy provided for production. This generally includes company taxes and taxes on employment. Note: given the returns to capital before tax (EBITDA) are calculated, company tax is not included, or this would double count that tax.
- Gross output measures the total value of the goods and services supplied by the entity. This is a broader measure than value added because it is an addition to the value added generated by the entity. It also includes the value of intermediate inputs used by the entity that flow from value added generated by other entities; and
- Employment is a fundamentally different measure of activity to those above. It measures the number of workers that are employed by the entity, rather than the value of the workers' output.

Figure B.1 shows the accounting framework used to evaluate economic activity, along with the components that make up gross output. Gross output is the sum of value added and the value of intermediate inputs. Value added can be calculated directly by summing the payments to the primary factors of production, labour (i.e. salaries) and capital (i.e. gross operating surplus, 'GOS', or profit), as well as production taxes less subsidies. The value of intermediate inputs can also be calculated directly by summing up expenses related to non-primary factor inputs.

B.3. Direct and indirect contributions

The **direct economic contribution** is a representation of the flow from labour and capital within the sector of the economy in question.

The **indirect contribution** is a measure of the demand for goods and services produced in other sectors as a result of demand generated by the sector in question. Estimation of the indirect economic contribution is undertaken in an input-output (IO) framework using Australian Bureau of Statistics input-output tables, which report the inputs and outputs of specific sectors of the economy (ABS 2010).

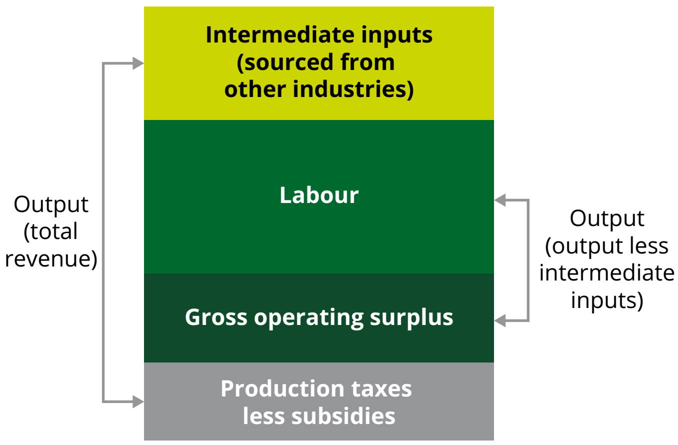
The total economic contribution to the economy is the sum of the direct and indirect economic contributions.

B.4. Limitations of economic contribution studies

While describing the geographic origin of production inputs may be a guide to a firm's linkages with the local economy, it should be recognised that these are the type of normal industry linkages that characterise all economic activities.

Unless there is significant unused capacity in the economy (such as unemployed labour) there is only a weak relationship between a firm's economic contribution as measured by value added (or other static aggregates) and the welfare or living standard of the community. Indeed, the use of labour and capital by demand created from the industry comes at an opportunity cost as it may reduce the amount of resources available to spend on other economic activities.

Figure B.1: Economic activity accounting framework



Source: Deloitte Access Economics

This is not to say that the economic contribution, including employment, is not important. As stated by the Productivity Commission in the context of Australia's gambling industries:

"Value added, trade and job creation arguments need to be considered in the context of the economy as a whole … income from trade uses real resources, which could have been employed to generate benefits elsewhere. These arguments do not mean that jobs, trade and activity are unimportant in an economy. To the contrary they are critical to people's well-being. However, any particular industry's contribution to these benefits is much smaller than might at first be thought, because substitute industries could produce similar, though not equal gains."

In a fundamental sense, economic contribution studies are simply historical accounting exercises. No 'what-if', or counterfactual inferences — such as 'what would happen to living standards if the firm disappeared?' — should be drawn from them.

The analysis — as discussed in the report — relies on a national input-output table modelling framework and there are some limitations to this modelling framework. The analysis assumes that goods and services provided to the sector are produced by factors of production that are located completely within the state or region defined and that income flows do not leak to other states.

The IO framework and the derivation of the multipliers also assume that the relevant economic activity takes place within an unconstrained environment. That is, an increase in economic activity in one area of the economy does not increase prices and subsequently crowd out economic activity in another area of the economy. As a result, the modelled total and indirect contribution can be regarded as an upper-bound estimate of the contribution made by the supply of intermediate inputs.

Similarly, the IO framework does not account for further flow-on benefits as captured in a more dynamic modelling environment like a Computable General Equilibrium model.

B.5. Input-output analysis

IO tables are required to account for the intermediate flows between sectors. These tables measure the direct economic activity of every sector in the economy at the national level. Importantly, these tables allow intermediate inputs to be further broken down by source. These detailed intermediate flows can be used to derive the total change in economic activity for a given sector.

A widely used measure of the spillover of activity from one sector to another is captured by the ratio of the total to direct change in economic activity. The resulting estimate is typically referred to as 'the multiplier'. A multiplier greater than one implies some indirect activity, with higher multipliers indicating relatively larger indirect and total activity flowing from a given level of direct activity.

The IO matrix used for Australia is derived from the ABS IO tables. The industry classification used for input-output tables is based on ANZSIC, with 111 sectors in the modelling framework.

Limitation of our work

General use restriction

This report is prepared solely for the internal use of the National Insurance Brokers Association of Australia. This report is not intended to and should not be used or relied upon by anyone else and we accept no duty of care to any other person or entity. The report has been prepared for the purpose of describing the economic value of the insurance broking profession as set out in our engagement letter. You should not refer to or use our name or the advice for any other purpose

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