

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS  
INSURANCE SECTOR**

**Marsh Pty Ltd**

**Response dated 20 July 2021**

**MAR01QW:** It would be helpful if you provide a copy of the report of Deloitte Access Economics on the role and economic value of insurance broking in Australia.

**Answer:** Marsh Pty Ltd ABN 65 004 651 512 AFSL 238983 is a member of the National Insurance Brokers Association ("NIBA"). Deloitte Access Economics provided a report dated September 2020 to NIBA entitled "The Economic Value of Insurance Brokers". Marsh is authorised by NIBA to share a copy of the report.



## The economic value of insurance broking

National Insurance  
Brokers Association

September 2020



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# Glossary

Term	Definition
<b>Terms relating to insurance</b>	
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.
<b>Terms relating to market players</b>	
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-authorized 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 <i>Crawford</i> and <i>FAS Global</i> .

Term	Definition
<b>Substitutes and alternatives to brokers</b>	
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 <i>iSelect</i> , <i>Compare the Market</i> , <i>Canstar</i> and <i>Choosi</i> .
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).



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.

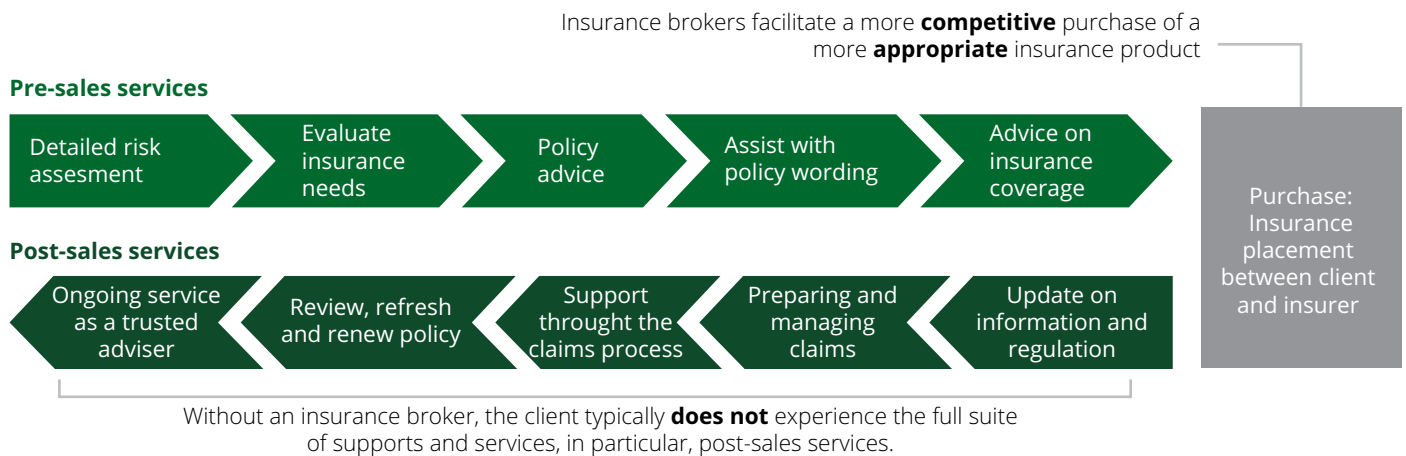
In 2019, intermediated insurance (by brokers and agents) represented almost half (47%) of gross written premium. This was facilitated by 1,662 intermediary licensees who employ multiple brokers. The five largest broker firms employed almost 7,700 full time broker employees.

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.

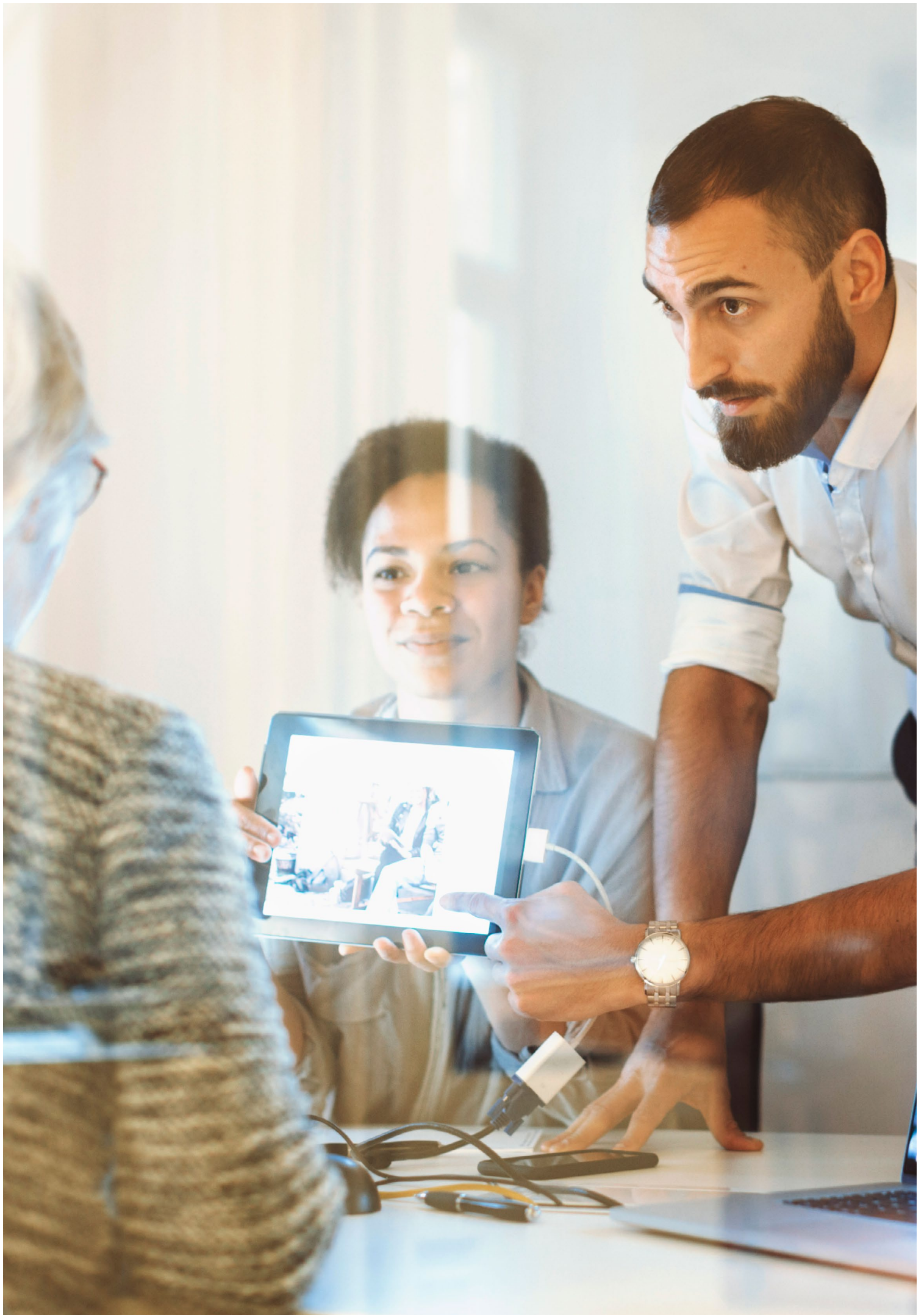
### Value to the government and broader society

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%).<sup>1</sup>

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.<sup>2</sup> 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).<sup>3</sup> 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”.*<sup>4</sup>

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.<sup>5</sup>

**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.

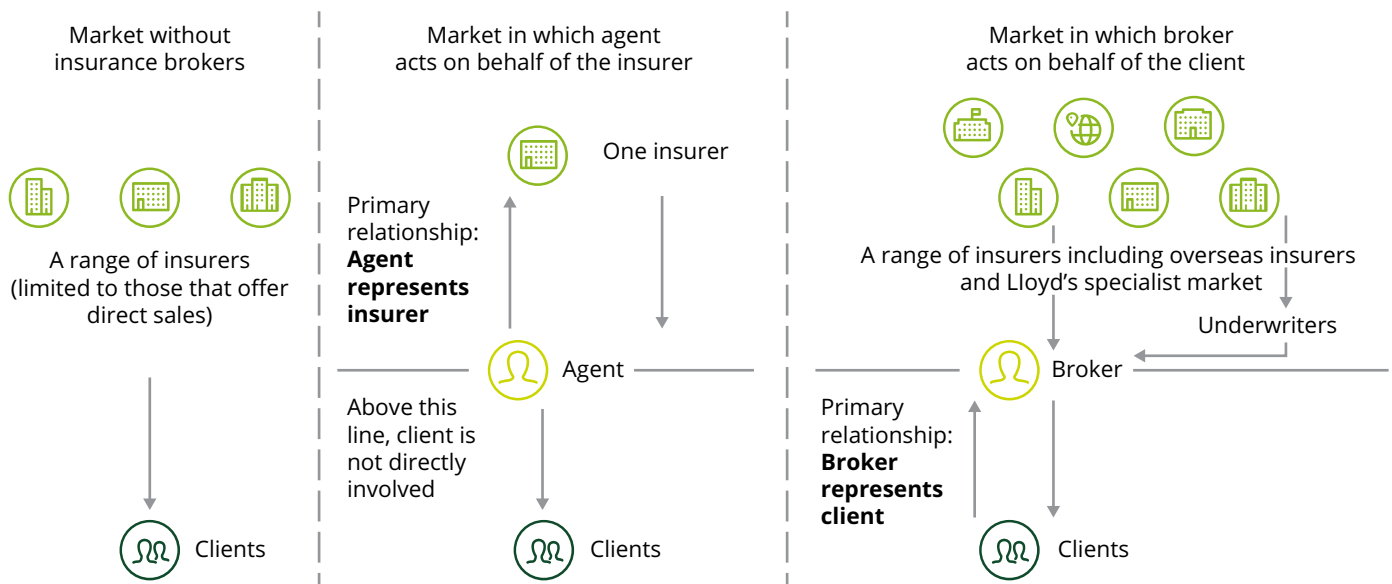
**In a market where insurers distribute their products through brokers**, the client will communicate with the broker, who will negotiate with the insurer to arrange the coverage. The broker has access to a range of insurers' offerings, and may use an aggregation system to make comparisons for the client 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.<sup>6</sup>

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.<sup>7</sup> 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.<sup>8</sup>

**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

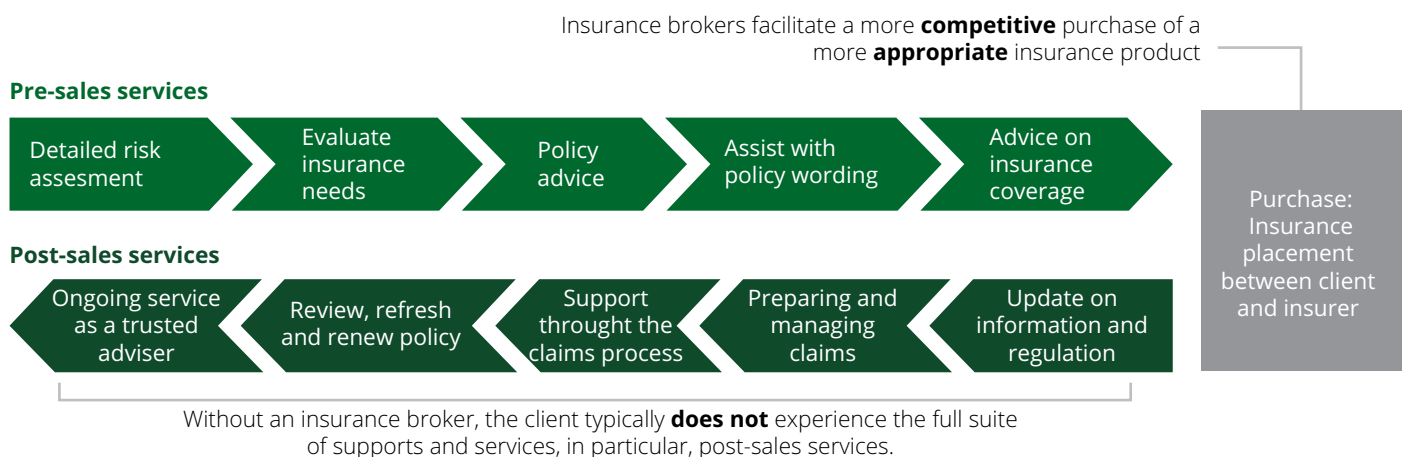
- Senior staff at insurance companies that use brokers exclusively, or in combinations with proprietary channels – Suncorp, QBE Insurance and Zurich.
- Two small business clients who use a broker to arrange some or all of the insurance for their small business.
- Representatives from LMIGroup – an organisation 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.<sup>9</sup>
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.<sup>10</sup>
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.<sup>10</sup> 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.<sup>11</sup>
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.<sup>10</sup> 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.<sup>12</sup> 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.<sup>10</sup>
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.<sup>10</sup>

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.<sup>13</sup>

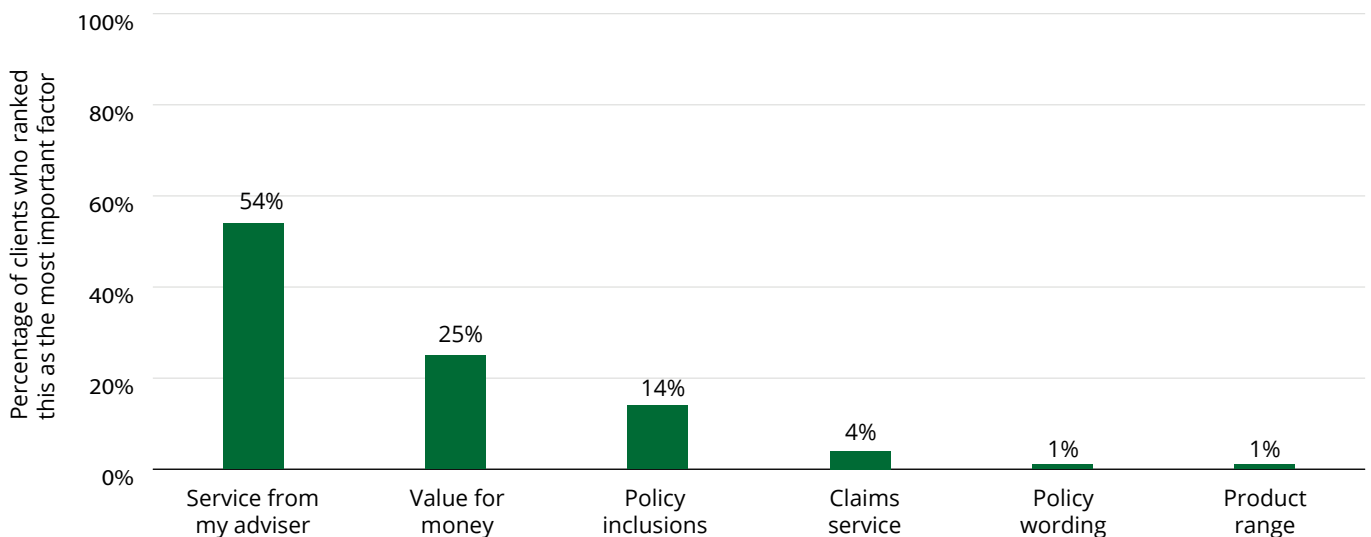
In a survey of one insurance brokerage's client base, 54% of clients ranked 'service from my adviser' as the single most important factor when choosing insurance, compared with the characteristics of their coverage or policy (Chart 2.1). Importantly, some client's understanding of a brokers 'service' 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.<sup>14</sup>

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.<sup>15</sup> 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 than 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.<sup>16</sup> 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.<sup>17</sup>

**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**

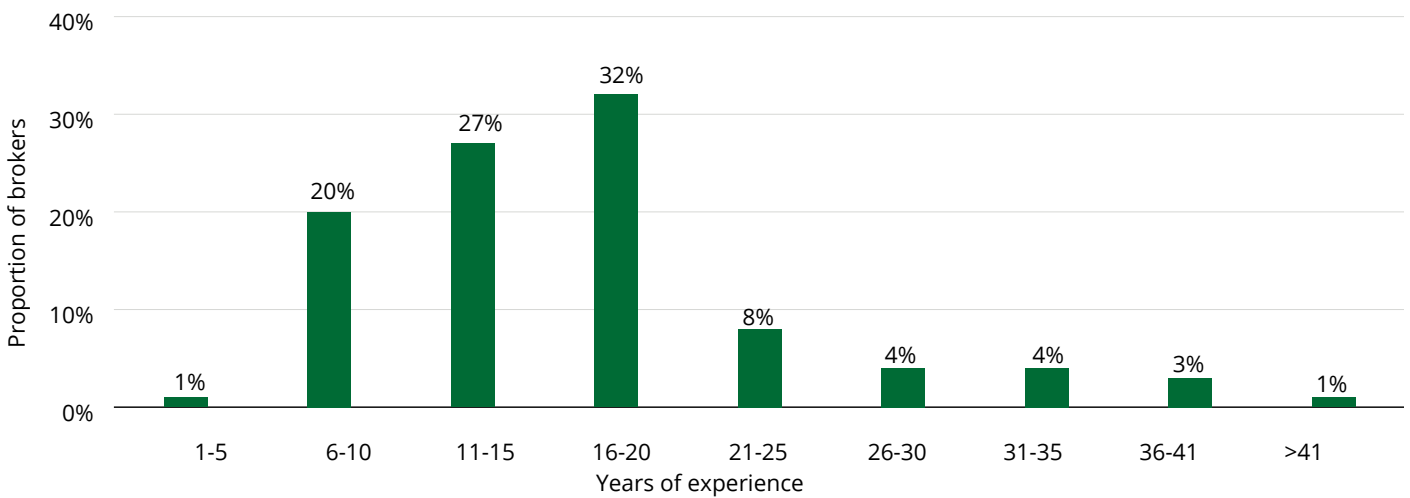
Insurance brokers have highly specific qualifications and accreditations, and bring value to clients through their experience working in the insurance broking industry.

More than three quarters (79%) of surveyed brokers had more than 10 years of experience working as an insurance broker (Chart 2.2).<sup>18</sup> 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.<sup>19</sup>

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.

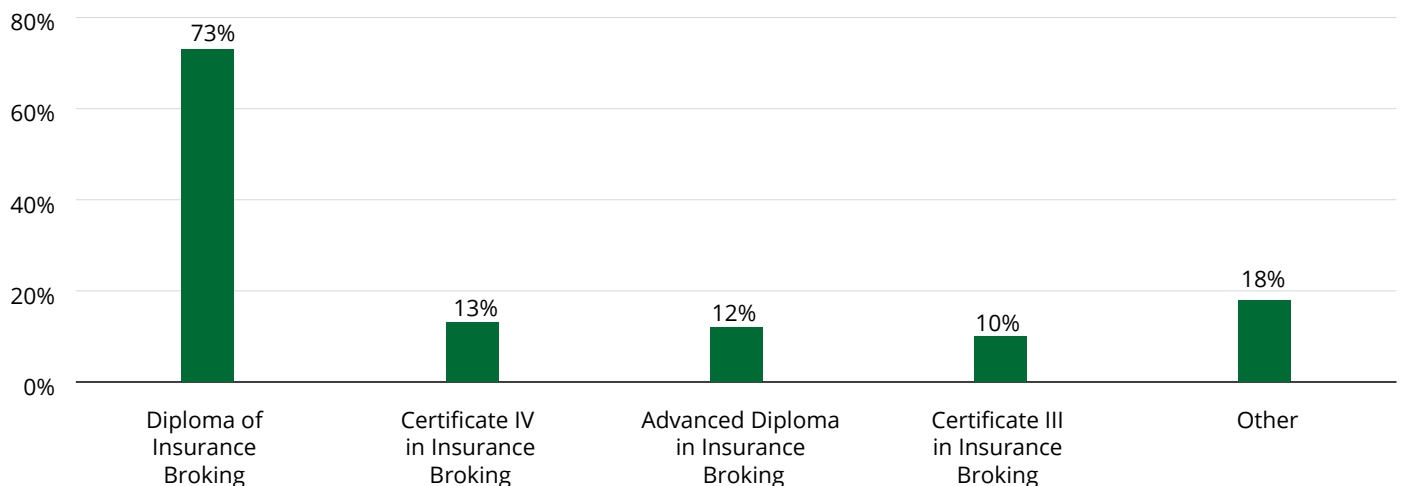
All practicing insurance brokers held a qualification related to their work. The majority of surveyed brokers (73%) held a Diploma in Insurance Broking (Chart 2.3).<sup>20</sup> Many brokers had multiple related qualifications, while 18% of respondents held other credentials such as higher education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

**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.<sup>21</sup>

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.

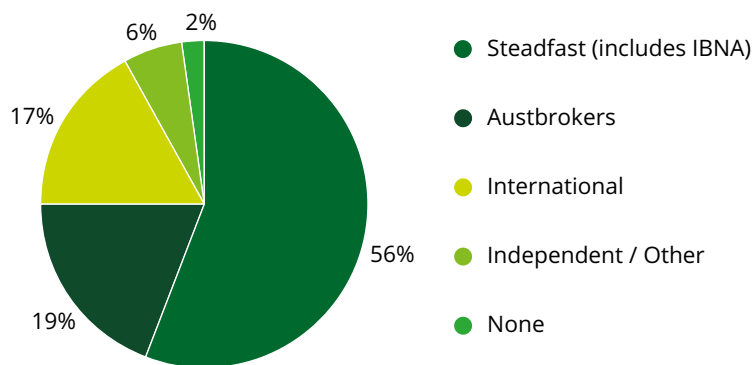
**Box 3: The role of broker networks**

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.<sup>22</sup> 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.<sup>23</sup> 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.<sup>24</sup> Clients' confidence in their level of cover could be driven by their confidence in their broker.

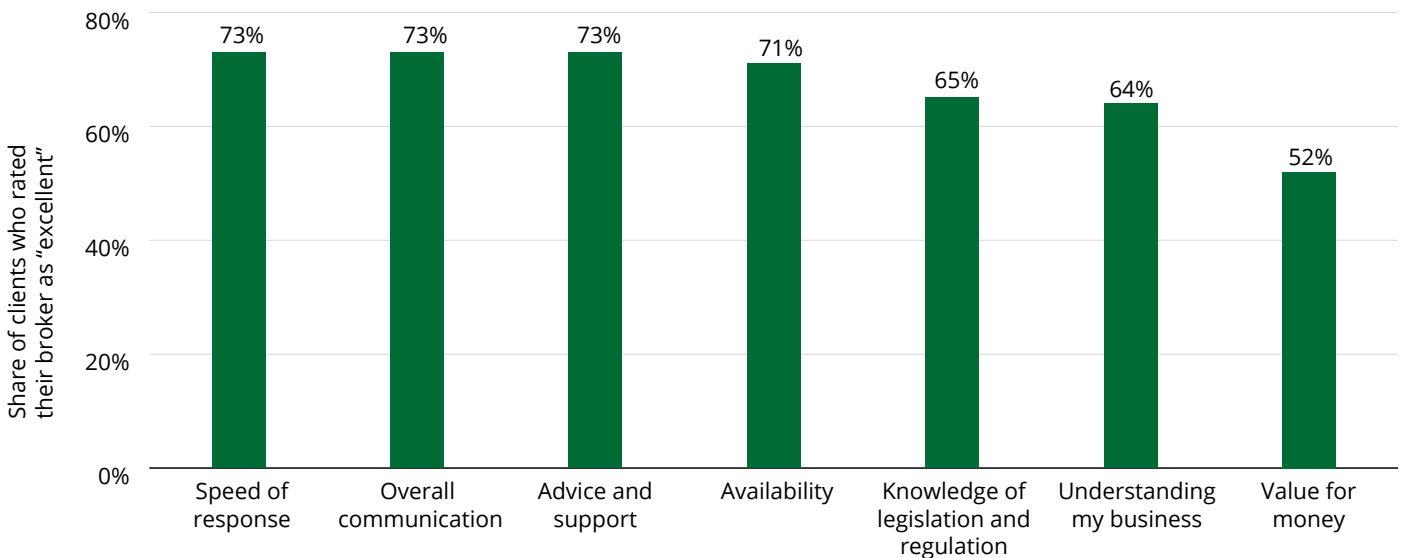
The overwhelming majority of Insurance Advisernet's clients (73%) rated their brokers advice and support as 'excellent'.<sup>24</sup> By comparison, 57% of mortgage brokers clients rated the effort they received from their broker as 8 out of 10 or above (with 0 being poor, 5 average and 10 exceeded expectations).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

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.<sup>26</sup> 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.<sup>27</sup> 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)<sup>26</sup>

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.<sup>28</sup>

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.<sup>29</sup> 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".*

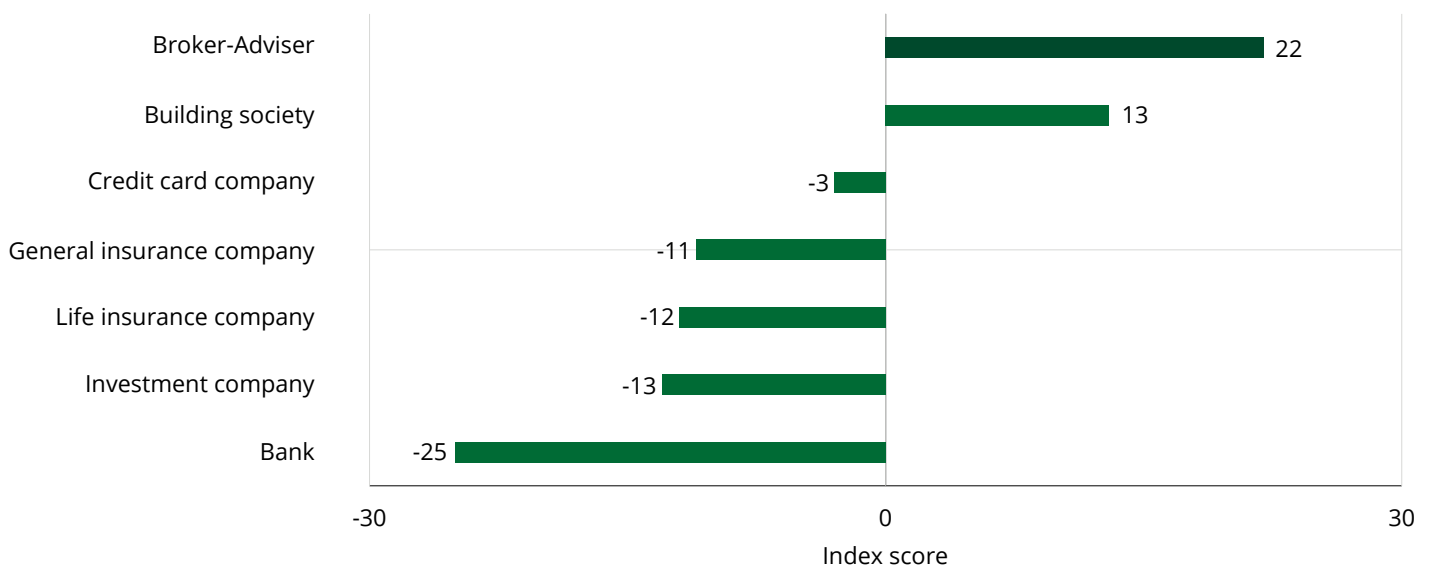
(Ros Stewart, small business owner)

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.<sup>30</sup>

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).<sup>31</sup> 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.<sup>30</sup>

**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 six 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.<sup>32</sup>

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.<sup>33</sup> 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:

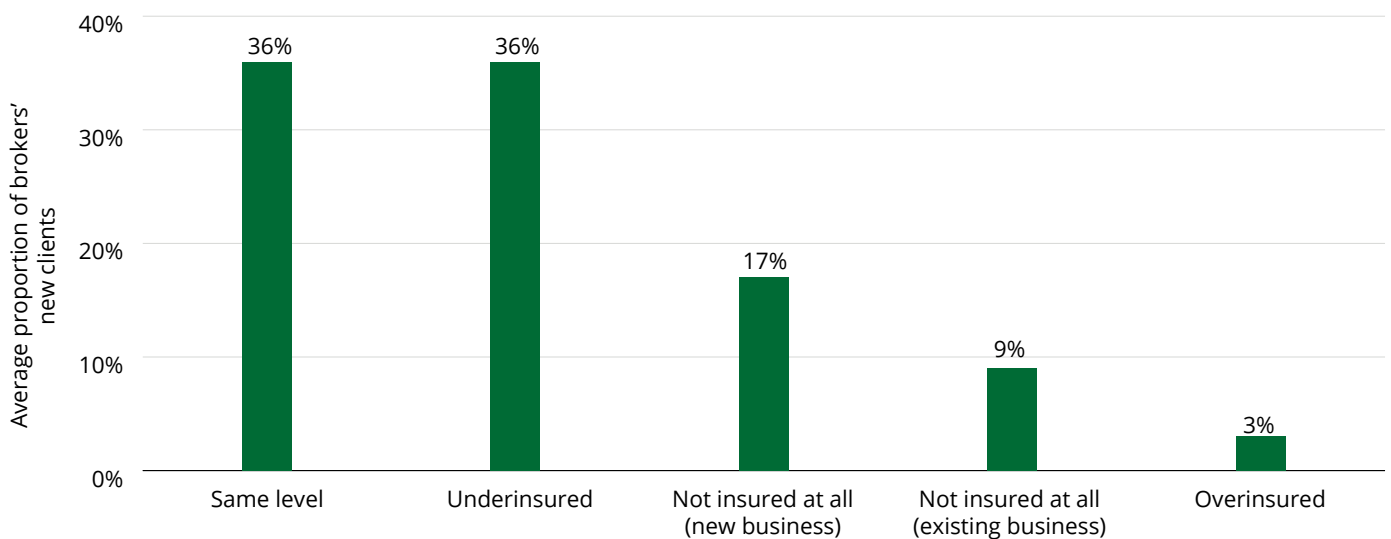
- Providing advice about the level of cover, in terms of sum insured, limitations and exclusions
- Providing advice about the type of cover, including introducing new or customised policies
- Providing access to a greater range of product offerings, including products only available via intermediaries, 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’s 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).<sup>34</sup>

**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.<sup>35</sup>

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.<sup>36</sup>

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

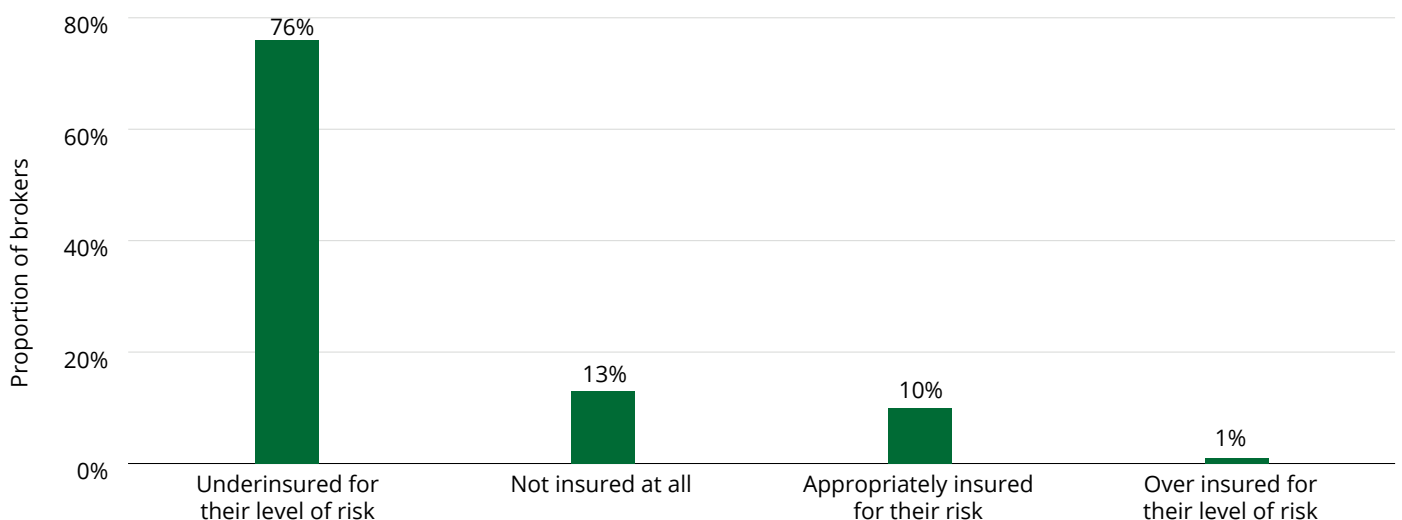
More likely	Less likely
Professional indemnity	Public liability
Management liability	Commercial property (including fire and theft)
Business interruption	Commercial motor vehicle
Industrial special risk	Workers compensation
Cyber insurance	Travel insurance
Marine (includes inland transit & cargo)	

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.<sup>37</sup> 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.<sup>38</sup> 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.<sup>39</sup>

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.<sup>40</sup>

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.<sup>41</sup> 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).<sup>42</sup> 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).<sup>43</sup>

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

<sup>42</sup> 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.

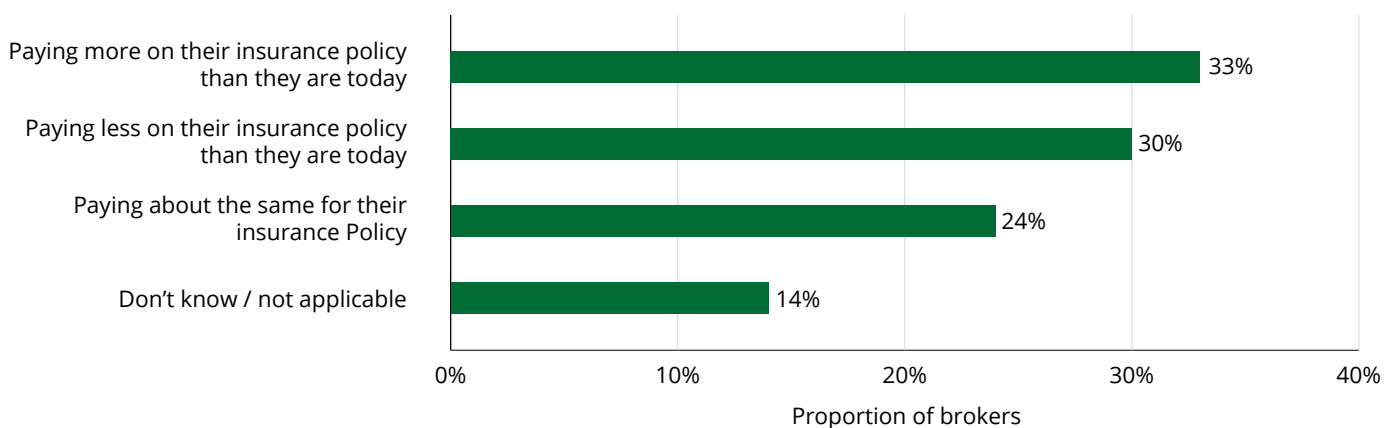
Brokers reduce the level of information asymmetry which clients and insurers face in the insurance market:

- 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<sup>44</sup>

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.<sup>45</sup>

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).<sup>46</sup>

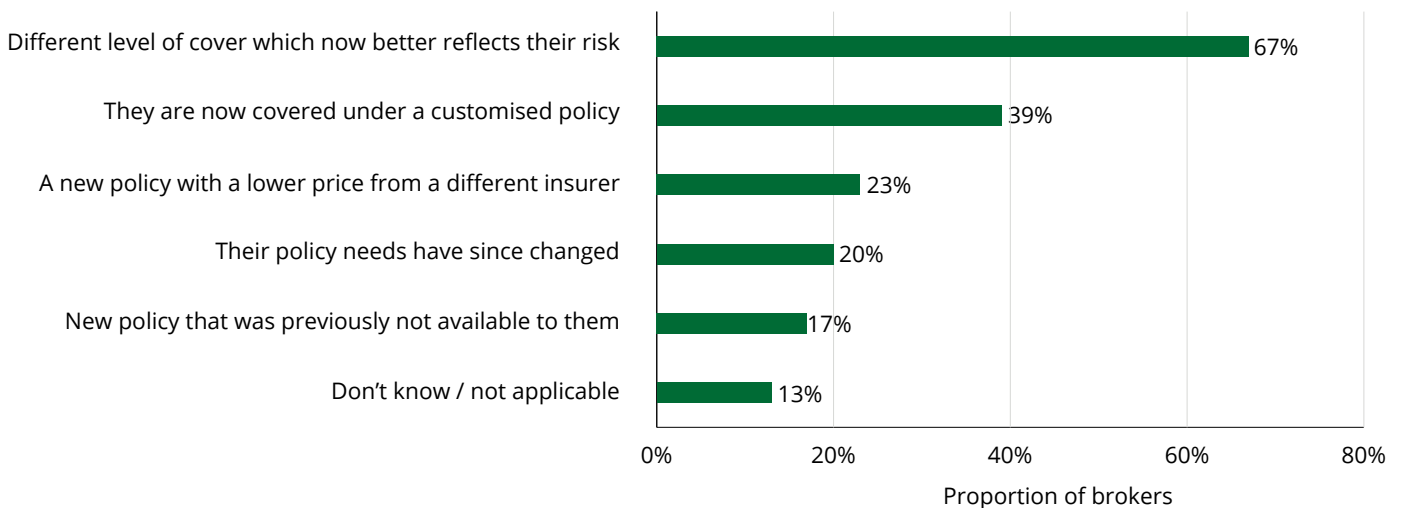
Retail (client facing) brokers may also engage wholesale insurance brokers to place premiums for highly specific products. Wholesale brokers act as an intermediary between a retail insurance broker and an insurance carrier, and tend to have expertise and greater buying power in a specific coverage types,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

**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.<sup>48</sup> 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 Policy Comparison**

LMI Policy Comparison 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.<sup>49</sup>

**Same insurers’ direct product vs intermediated product**

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.

**Insurers’ standard product wording vs its network-aligned network wording (limitations)**

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.

**Insurers’ standard product wording vs their network-aligned network wording (coverage types)**

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 these processes would take the average SME client arranging a business insurance policy 13.5 hours longer if they had not engaged a broker.<sup>50</sup> 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.<sup>51</sup> 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.

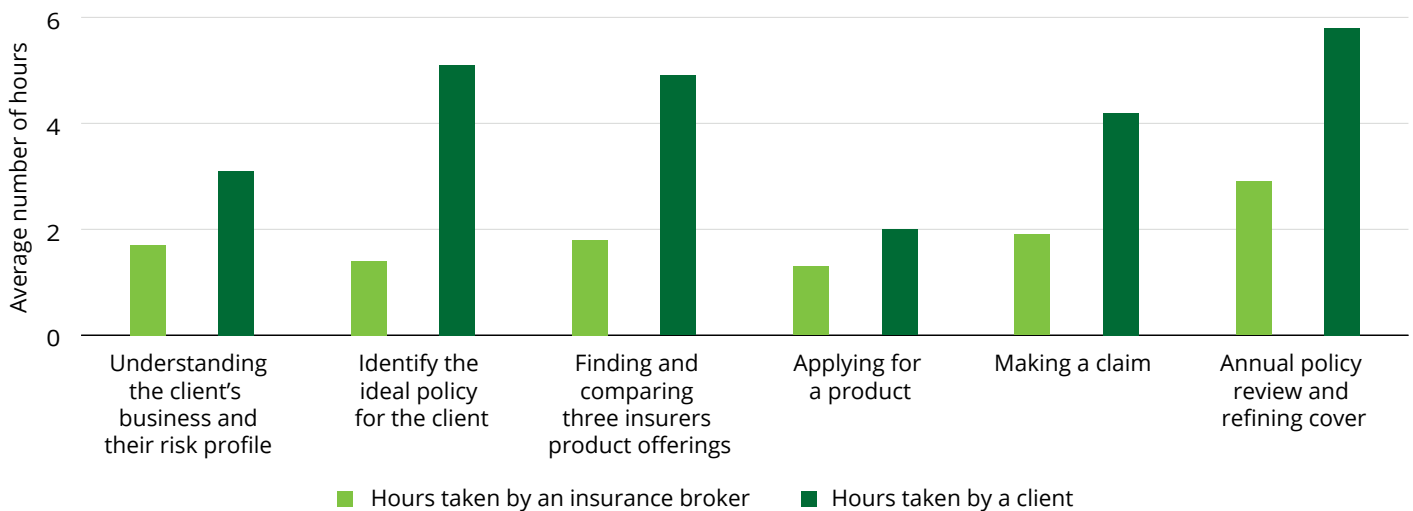
It is estimated that more than 803,000 Industrial Special Risk (ISR) policies were arranged by intermediaries in 2019.<sup>52</sup> An ISR policy is often arranged by brokers as a more tailored alternative to an insurers' standard direct 'Business Pack' insurance offering.<sup>53</sup> This figure provides 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 asks 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.

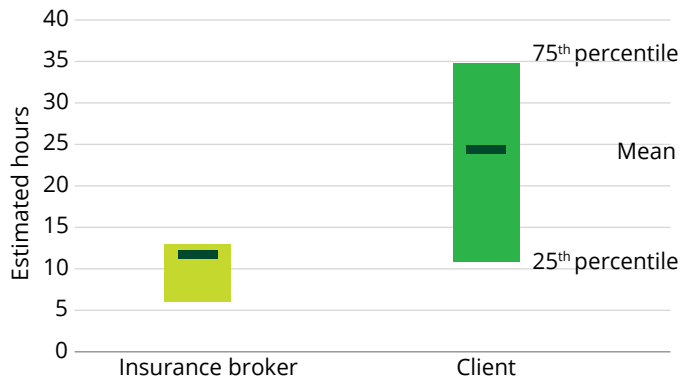
**Chart 2.11: Time taken by insurance brokers and clients in each process, average response**



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).

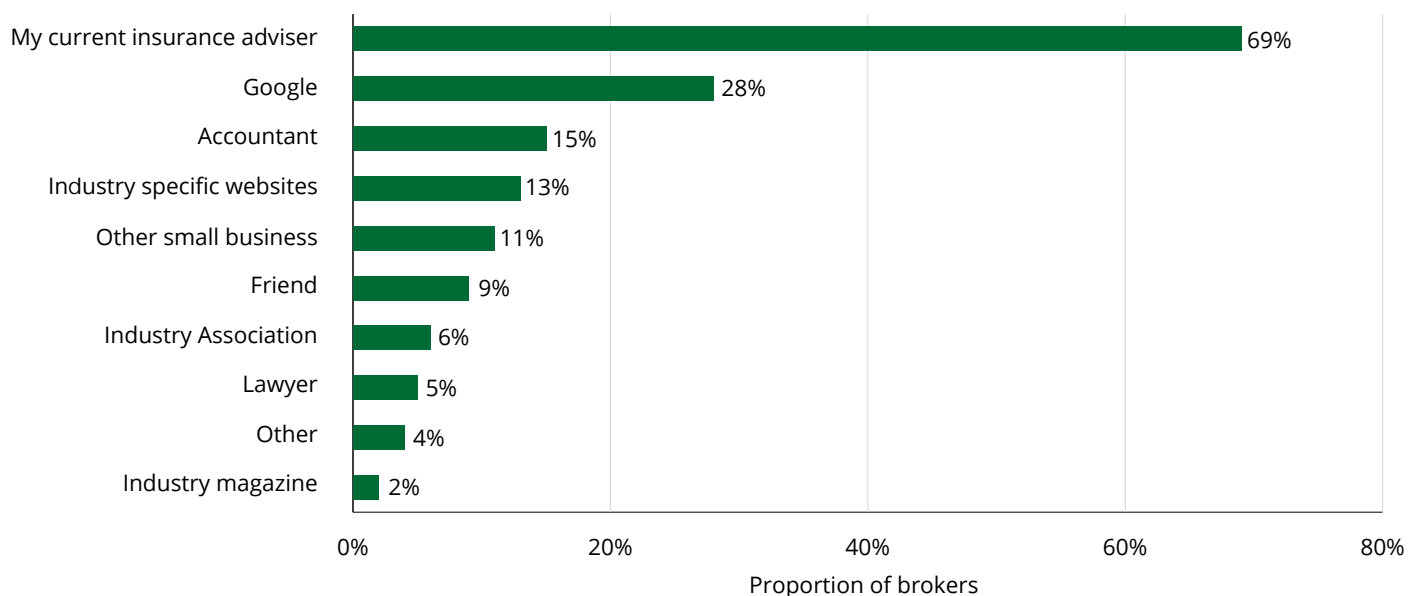
Brokers estimated that it would take the average SME client 4.8 hours longer than a broker to understand their risk profile and identify the ideal policy to cover this risk.<sup>54</sup> While clients access the insurance market infrequently, brokers are specialists in the field, and have experience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

- 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.<sup>56</sup>
- 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%).<sup>57</sup> 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.<sup>58</sup> 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.<sup>59</sup> 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.<sup>60</sup>

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.<sup>61</sup> On average, brokers reported that they would save clients 2.4 hours in the claims process.<sup>62</sup>

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.

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.<sup>63</sup>

**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.<sup>64</sup>

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.<sup>64</sup>

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:

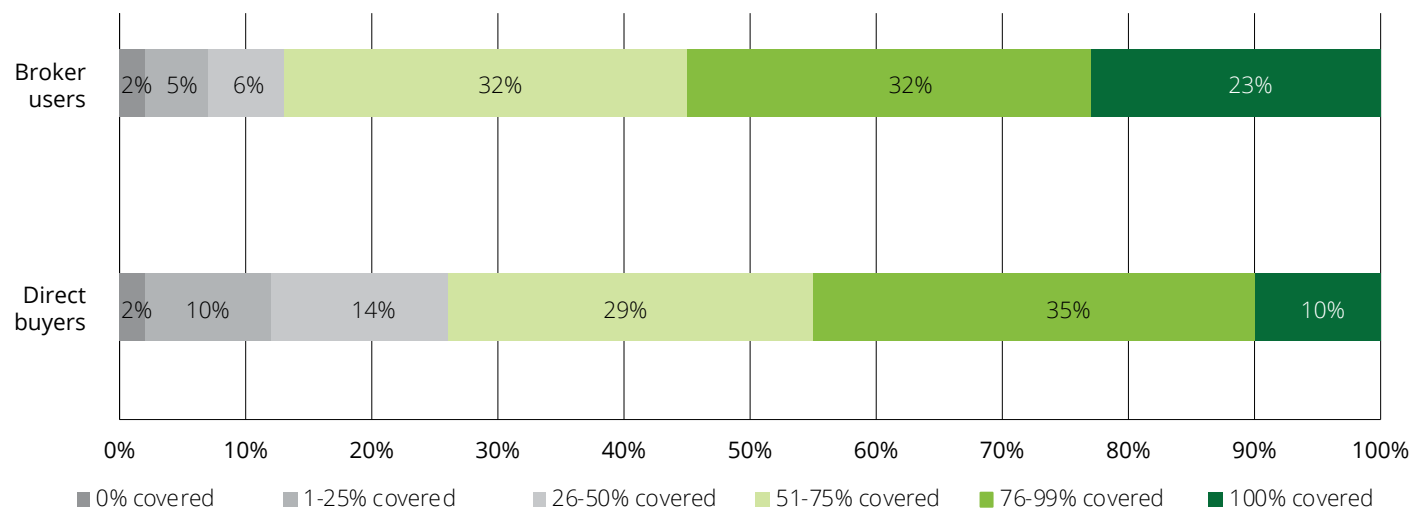
*“Especially for those with complex cover, or for SMEs with little experience in the claims process. Clients who purchased directly might otherwise have a limited understanding of what their cover includes. This might include an incorrect interpretation of policy terms or a lack of time to acquire the 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.<sup>65</sup>

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.<sup>66</sup>

**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.

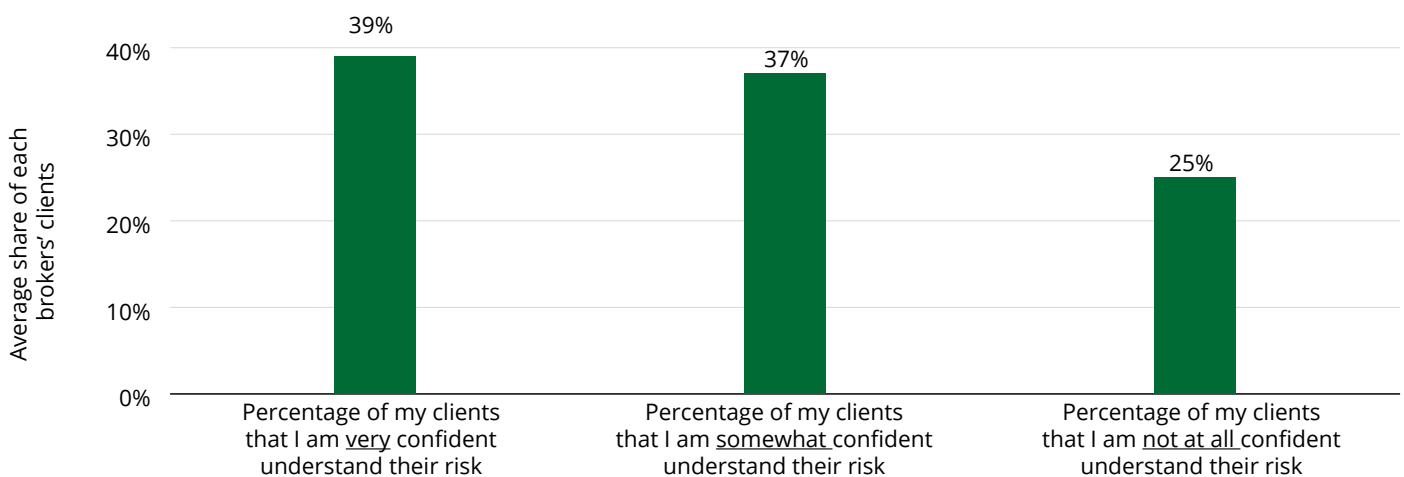
**2.6.2 Risk minimisation and mitigation**

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.<sup>67</sup>

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)

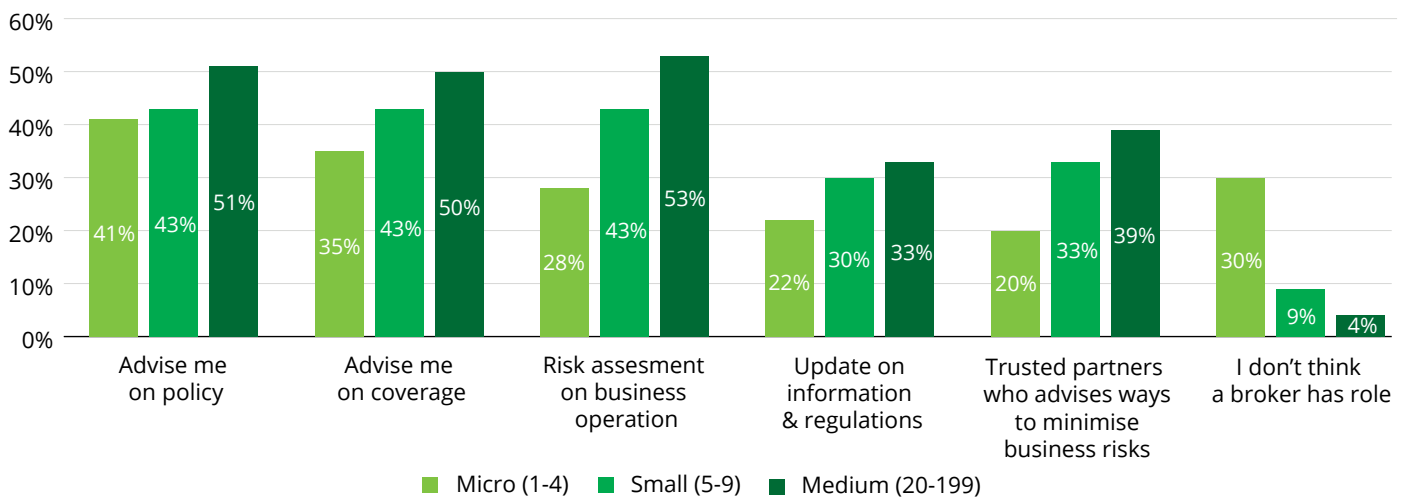
An example of this risk advice is the client and broker completing an annual 'floor walk' of a business premises to identify actions the client can take to minimise risk, and to ensure that they are complying with the terms of their insurance policy. Clients' examples of advice given by brokers during 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.<sup>68</sup>

SME clients see brokers as risk advisers who can provide risk management services, as well as assistance in selecting insurance (Chart 2.16).

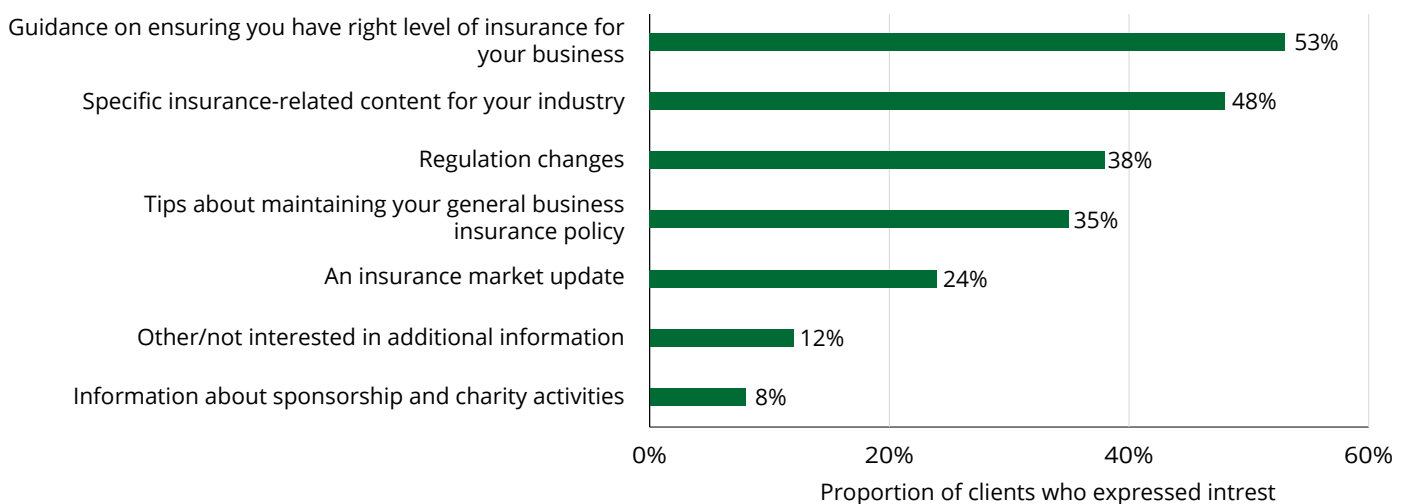
Medium businesses (20-199 employees) were more likely than small (5-19) and micro (1-4) businesses to see a role for a broker in preparing their business to face risks, and provide services other than insurance policy advice.<sup>69</sup> A significant portion (48%) of one brokerage's clients noted that 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.<sup>70</sup> 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.<sup>70</sup>
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.<sup>70</sup>

**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.<sup>71</sup> 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	<ul style="list-style-type: none"> <li>• Direct sales of information</li> <li>• Matchmaking</li> <li>• Market-making</li> </ul>	<ul style="list-style-type: none"> <li>• Search costs</li> <li>• Information costs</li> <li>• Opportunity cost of time</li> </ul>
Availability of products and immediacy	<ul style="list-style-type: none"> <li>• Compensation of variances in demand and supply</li> </ul>	<ul style="list-style-type: none"> <li>• Opportunity cost of time</li> </ul>
Negotiating and contracting	<ul style="list-style-type: none"> <li>• Strong bargaining position</li> <li>• Exploitation of differences in contract terms between supply and demand market side</li> <li>• To standardise contracts</li> </ul>	<ul style="list-style-type: none"> <li>• Negotiation costs</li> <li>• Information costs</li> <li>• Administrative costs</li> <li>• Opportunity costs of time</li> </ul>
Monitoring and guaranteeing	<ul style="list-style-type: none"> <li>• Expertise in determining product and service quality</li> <li>• Cross-sectional and temporal reuse of information</li> <li>• Guaranteeing high product quality</li> </ul>	<ul style="list-style-type: none"> <li>• Information costs</li> <li>• Monitoring and control costs</li> <li>• Costs resulting from uncertainty</li> <li>• Investment in expertise</li> </ul>

Source: Eckardt & Rathke-Doppner (2010)

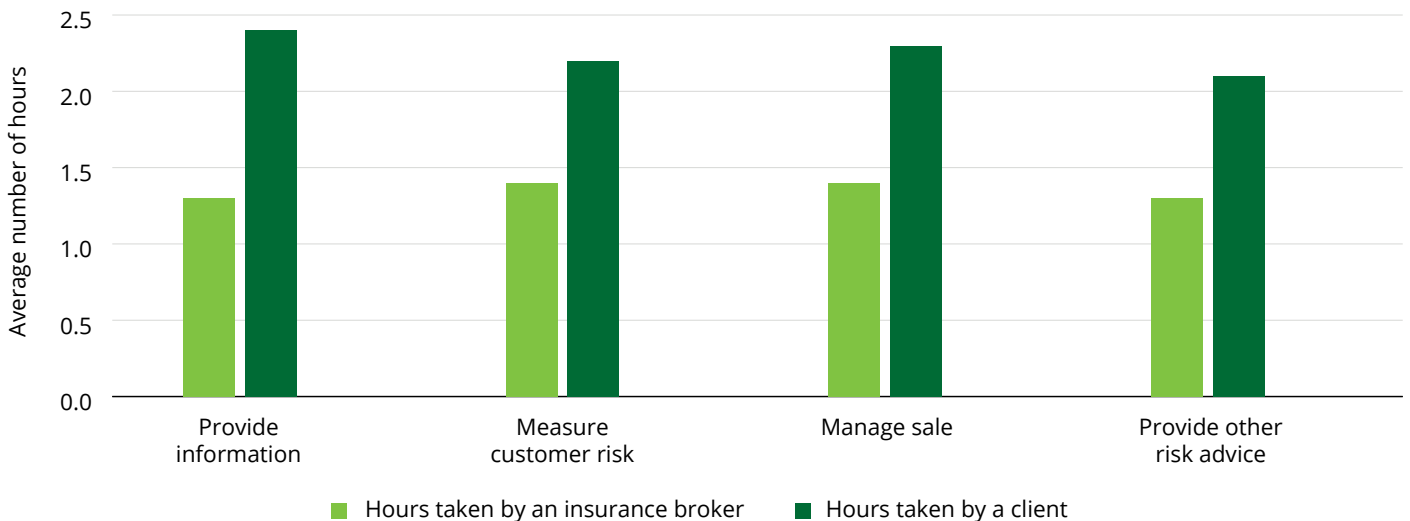
Brokers estimated that they would save insurers time across each stage of a transaction:

- 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 through their networks, which support efficiency in the data collection process.

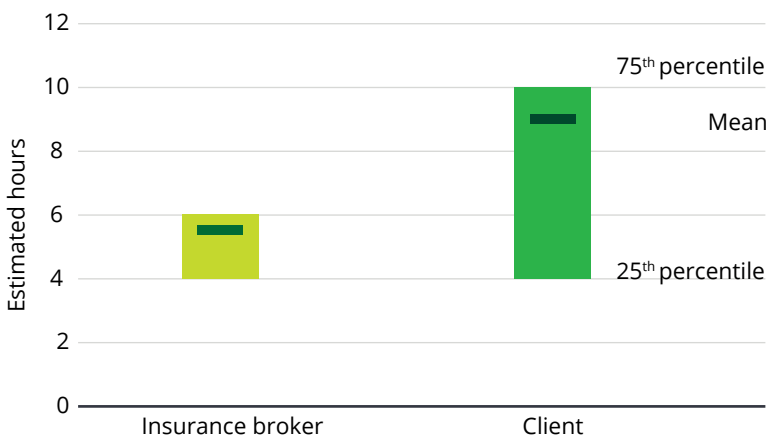
Insurers noted that the broker channel supports a range of operational efficiencies. Cost savings were particularly noted for more complex lines of insurance, where there is a higher rate of product tailoring (and more detailed information about the client is required).

**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.<sup>72</sup> 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-authorized general insurers was placed by intermediaries.<sup>73</sup> 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.<sup>74</sup>

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%).<sup>75</sup> 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.<sup>75</sup>

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.<sup>76</sup> 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.

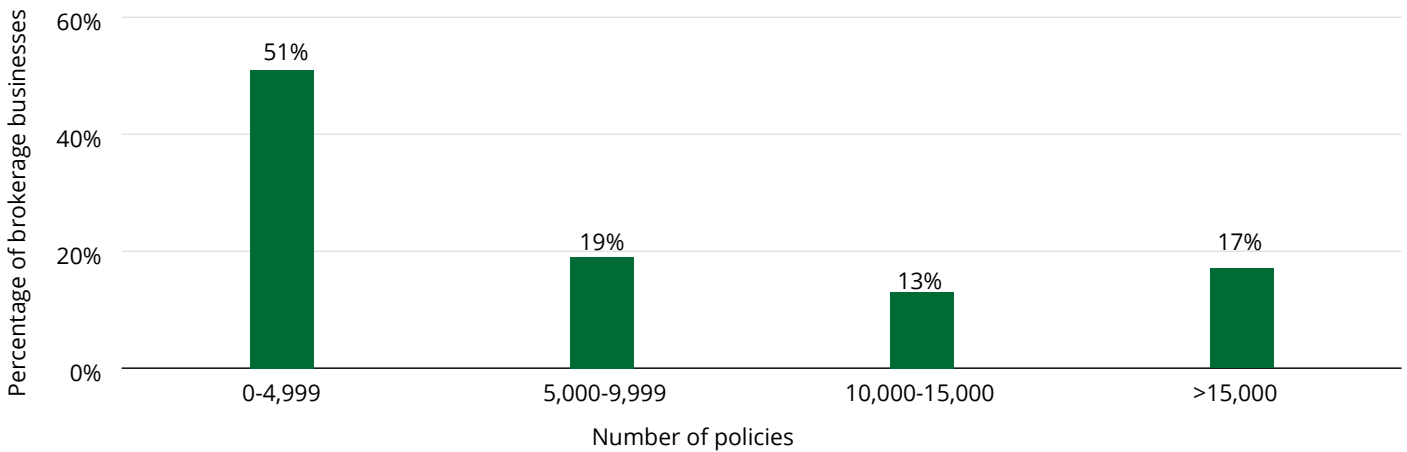
**3.2.1 Access to clients**

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.

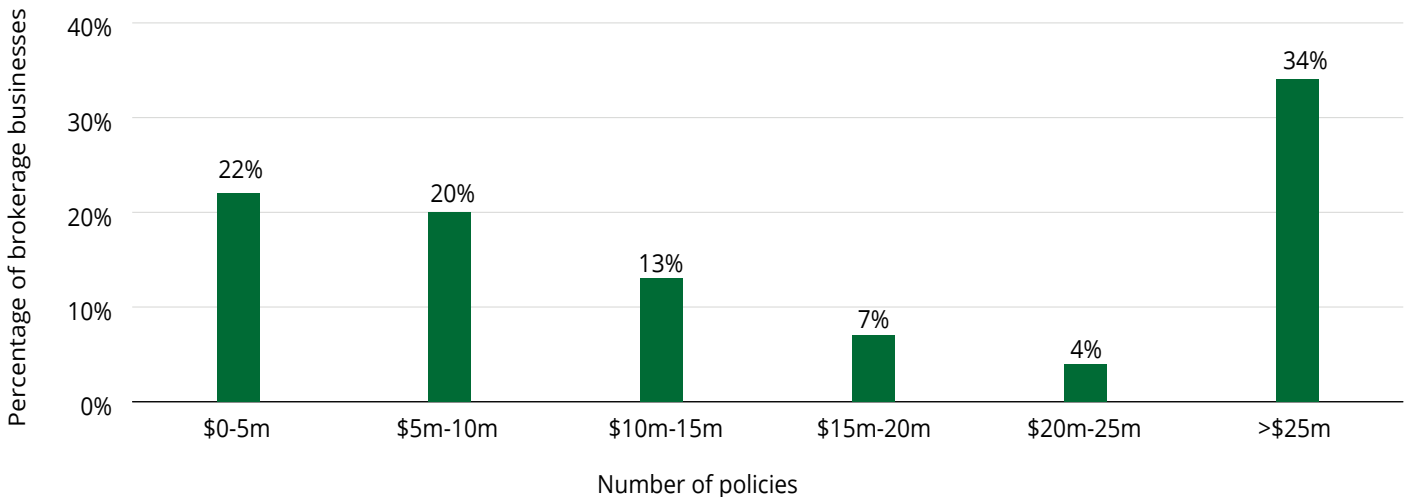
The proportion of SME clients who do not use a broker at all fell from 31% in 2018 to 24% in 2019.<sup>75</sup> The increasing use of the broker channel could reflect the emerging need for small businesses to purchase product lines which are only offered through the broker channel, such as cyber insurance, 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).

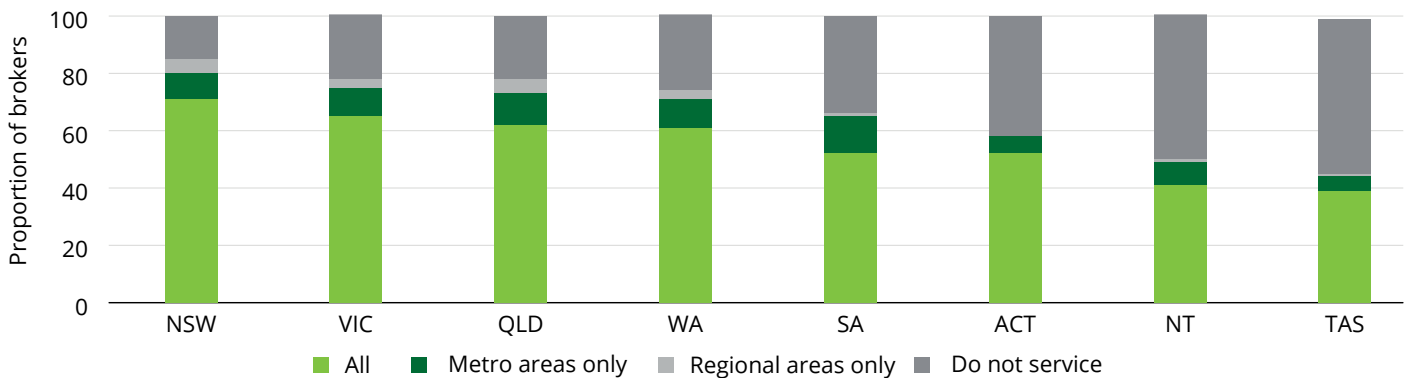
Brokerage businesses estimated that they arranged \$48 million in GWP for clients outside of Australia’s capital cities in 2019. On average, 38% of a brokerage’s GWP in 2019 was for clients operating outside of Australia’s capital cities. This may include both clients in regional areas in Australia and 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.

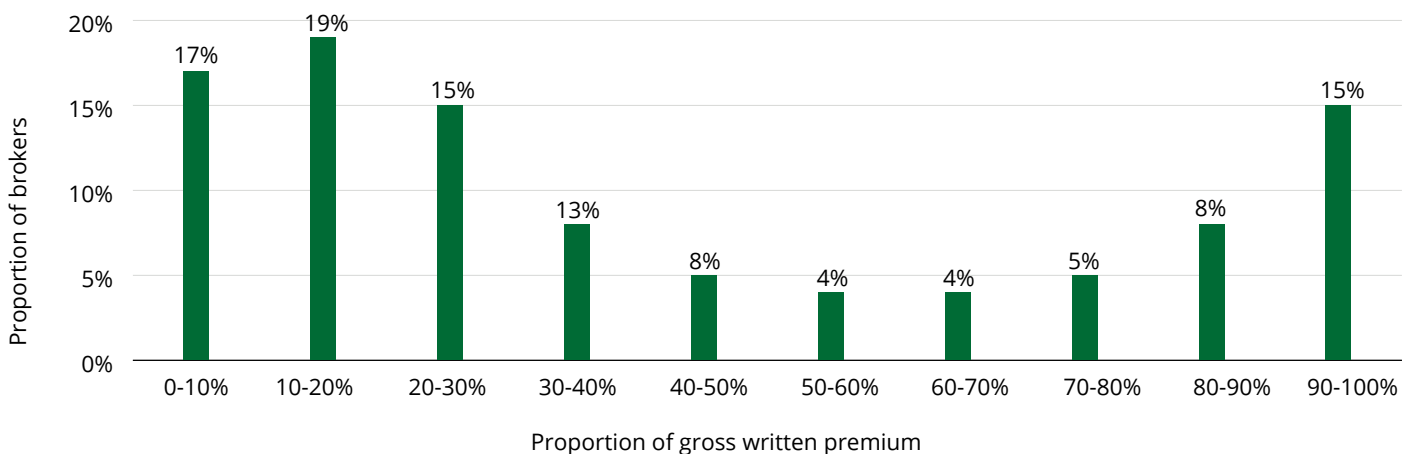
Overall, this adds to the supply of cover into the Australian market, thereby having a competitive element, and benefits both clients and insurers (also see Section 4.1).

**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.<sup>77</sup>

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.<sup>77</sup>

**3.3.2 Product innovation**

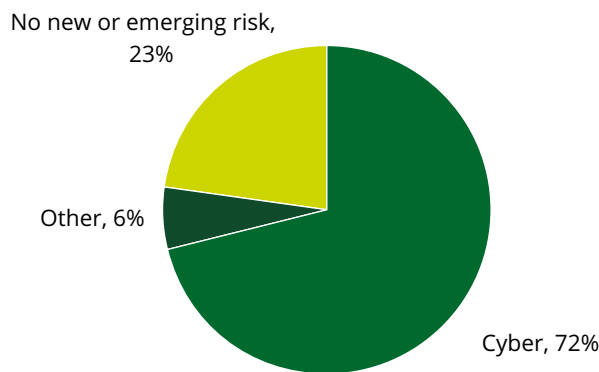
Brokers play an important role in developing their clients’ understanding of insurers’ different product offerings. This includes introducing new product lines and explaining their value to clients. On average, 13% of a broker’s policies sold in 2019 represented a new market opportunity for insurers. ‘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.<sup>78</sup>

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 predictable.

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.<sup>79</sup>

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.<sup>80</sup>

*"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).<sup>79</sup>

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.<sup>81</sup>

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.<sup>82</sup> 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’.<sup>83</sup> 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.<sup>84</sup> In addition, more than half of medium businesses (53%) said that brokers were their trusted risk adviser, in addition to providing insurance broking services.<sup>84</sup>

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 facilitates 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.<sup>85</sup>

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.<sup>86</sup> 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<sup>87</sup>

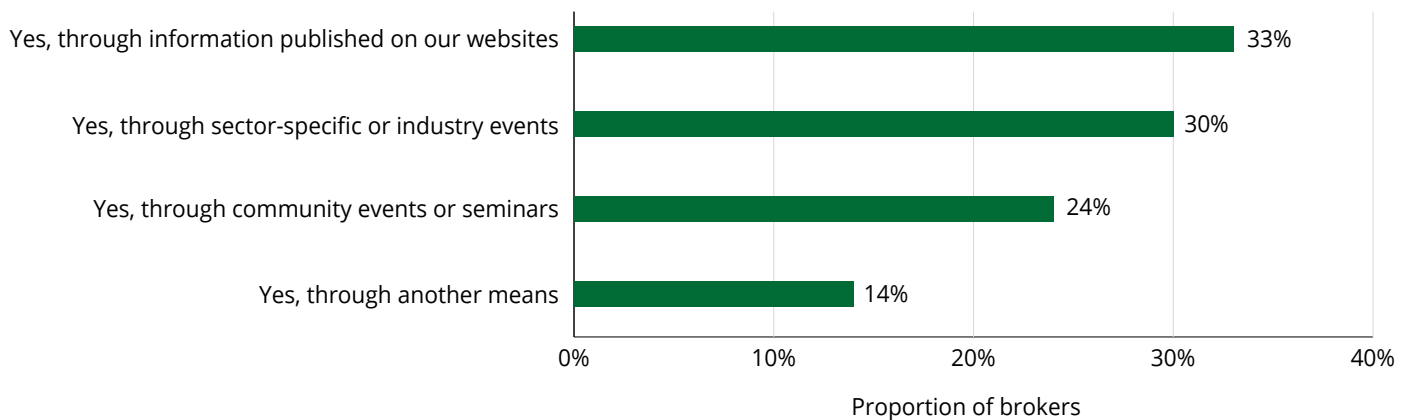
The industry itself directly contributed \$2.6 billion and supported nearly 15,000 FTE roles. This suggests the economic activity undertaken by the insurance broking industry is roughly equivalent to the contribution of each of the gas supply and creative arts industries in Australia, which each had just over \$2 billion gross value added in 2017-18.<sup>88</sup>

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 insurance broking industry, another 0.4 FTEs are employed in industries 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.<sup>89</sup>

**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.<sup>91</sup> 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.<sup>92</sup>

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.<sup>93</sup>

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.<sup>94</sup>

### 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.<sup>90</sup> 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:<sup>95</sup>

*"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.<sup>96</sup>

# 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).

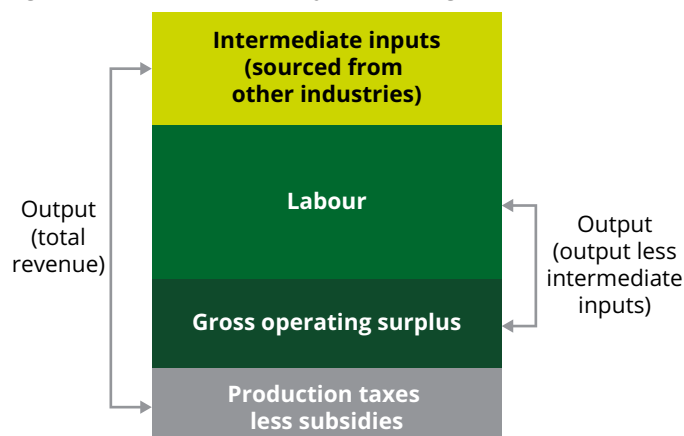
The total economic contribution to the economy is the sum of the direct and indirect economic contributions.

**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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