



NATIONAL INSURANCE BROKERS ASSOCIATION OF AUSTRALIA (NIBA)
SUBMISSION TO THE SENATE ECONOMICS REFERENCES COMMITTEE
AUSTRALIAN PARLIAMENT
INQUIRY INTO AUSTRALIA'S GENERAL INSURANCE INDUSTRY

February 2017

The National Insurance Brokers Association of Australia (NIBA) appreciates the opportunity to make this submission to the Senate Economics References Committee inquiry into Australia's general insurance industry.

Executive Summary

NIBA is strongly committed to the promotion of high standards of professional conduct by insurance brokers in Australia. One of the three core NIBA Goals and Objectives, approved by the NIBA Board of Directors in December 2014, is as follows:

Professionalism: develop and promote high standards of professional practice for insurance brokers in Australia for the benefit of their clients and the community. This will be achieved through:

- **Education** – industry relevant education and continuing professional development;
- **Code of Practice** – a membership that subscribes to the Insurance Brokers Code of Practice; and
- **Professional Standards** – a framework for high standards of ethical and professional conduct by Members.

NIBA's commitment to high standards of professional practice has been and continues to be evidenced by –

- NIBA's regular promotion of accredited and approved qualifications at Certificate and Diploma levels, delivered by the Australian and New Zealand Institute of Insurance and Finance, with these courses and course content being regularly reviewed and enhanced as industry practice develops and changes;
- Longstanding requirements for insurance brokers to maintain Continuing Professional Development obligations;



- Insurance Brokers Code of Practice, reviewed in 2012 and 2013 and operating since 2014 under the auspices of an independent Code Compliance Committee; and
- A commitment to develop and promote higher standards of ethical and professional conduct in insurance broking.

In responding to the terms of reference, NIBA questions the validity of the suggested correlation between movements in the level of premiums for home, strata and car insurances, and wage growth. The level of premiums are influenced by a range of factors other than wage inflation.

NIBA strongly challenges the potential benefit of so called insurance comparison services. In our experience, comparison services focus on price and price only, and do not take account the risk needs of the consumer, or the variations in terms and conditions in the policies being offered via the service. They therefore have the capacity to offer false security and misleading information to uninformed consumers.

About NIBA

NIBA is the voice of the insurance broking industry in Australia. NIBA represents 320 member firms and nearly 4,000 individual Qualified Practising Insurance Brokers (QPIBs) throughout Australia. NIBA member firms include large multinational corporations, large Australian broking companies and a large number of medium and smaller brokerages operating in the cities, towns and regions right across Australia.

Brokers handle almost 90% of the commercial insurance transacted in Australia, and play a major role in risk advice and insurance distribution, handling over \$18 billion in premiums annually and placing around half of Australia's total insurance business. Insurance brokers also place substantial insurance business into overseas markets for large and special risks.

Over a number of years NIBA has been a driving force for change in the Australian insurance broking industry. It has supported financial services reforms, encouraged higher educational standards for insurance brokers and introduced a strong independently administered and monitored Code of Practice for members. The member firms of NIBA all hold an Australian financial services (AFS) licence issued by ASIC under the Corporations Act that enables them to deal in or advise on risk insurance products.



The role of insurance brokers

The traditional role of insurance brokers is to:

- assist customers to assess and manage their risks;
- provide advice on risk financing and risk transfer, including the insurance cover that is appropriate for the customer's needs;
- assist customers to arrange and acquire insurance; and
- assist the customer in relation to any claim that may be made by them under the insurance.

In doing the above the insurance broker acts for and on behalf of the customer as their agent. In essence, insurance brokers do not SELL insurance to their clients, they PURCHASE insurance on behalf of their clients. They act in the client's best interest when doing so.

Insurance brokers offer many benefits to consumers:

- assistance with selecting and arranging appropriate, tailored insurance policies and packages
- detailed technical expertise including knowledge of prices, terms and conditions, benefits and pitfalls of the wide range of insurance policies on the market;
- assistance in interpreting, arranging and completing insurance documentation;
- experience in predicting, managing and reducing risks; and
- assistance with claims and a higher success rate with settlements (about 10 per cent higher than claims made without a broker).

In limited cases insurance brokers may act as agent of the insurer not the insured but where such a relationship exists the customer is clearly advised up front. This is a key requirement of the Insurance Brokers Code of Practice.

Insurance brokers also constitute the market through which intermediated general insurance operates. Insurance brokers assess the insurance needs of their clients, and then take the proposal to the insurance market, seeking the best cover on the best terms the market will offer. Brokers are able to apply competitive pressure on insurance underwriters in order to get the best outcome for their clients.

Insurance brokers are under statutory, common law and contractual duties to act in the best interests of their client, and do so in almost all cases. There is no current evidence of systemic poor advice being given by insurance brokers in relation to general insurance risks.

All insurance brokers must operate under an Australian financial services licence, and are regulated by ASIC as part of Australia's financial services regulatory regime.



Insurance Brokers Code of Practice

All members of NIBA subscribe to the Insurance Brokers Code of Practice. The current Code has been in place since 2014, and is available at: <https://www.niba.com.au/codeofpractice/index.cfm>

The aim of the Code of Practice is to enhance and promote the professionalism and standing of NIBA members as insurance brokers, and to further increase community confidence in insurance brokers across Australia.

The NIBA Board of Directors has indicated it will undertake a review of the Code of Practice during 2017.

The Code of Practice is independently monitored and enforced by the Insurance Brokers Code Compliance Committee, a function performed within the Financial Ombudsman Service. The Code Compliance Committee comprises –

- an independent Chair, Mr Michael Gill. Mr Gill is an experienced insurance lawyer. The chair is jointly appointed by the Board of FOS and the Board of NIBA.
- an industry representative, Mr David Duffield. Mr Duffield is a senior executive with the insurance broking firm Marsh. The industry representative is appointed by the Board of NIBA.
- a consumer representative, Ms Julia Davis. Ms Davis is the Policy and Communication Officer at the Financial Rights Legal Centre in NSW. The consumer representative is appointed by the Board of FOS.

The Code Compliance Committee publishes an annual review of its operations. The Annual Review for 2015-16 is available at: <https://www.fos.org.au/custom/files/docs/insurance-brokers-code-compliance-committee-annual-review-201516.pdf>

Financial Ombudsman Service

In accordance with their regulatory obligations, all insurance brokers in Australia are members of an external dispute resolution scheme: the Financial Ombudsman Service (FOS).

Each year FOS publishes an Annual Review of the disputes that have been lodged with it, and how those disputes have been resolved. The Annual Review for 2015-16 is available at:

<https://www.fos.org.au/publications/annual-review.jsp>



During 2015-15, FOS accepted 6,858 general insurance disputes. Full details of the nature of those disputes are set out in the Annual Review.

During the same period, FOS accepted 344 disputes between general insurance brokers and their clients. Where FOS finds in favour of the client, brokers invariably meet their obligations under the FOS award. There are no unpaid FOS awards against insurance brokers.

Intermediated General Insurance Statistics

As noted above, insurance brokers operate predominantly in the area of commercial insurance, although most insurance brokers will also help customers and consumers with their domestic insurance needs. Some insurance brokers provide extensive service and support to domestic insurance clients.

Insurance brokers place insurance business with APRA authorised insurers operating in the Australian market, Lloyd's of London, and with unauthorised foreign insurers where it is appropriate to do so. Insurance brokers place around 50% of the annual general insurance premium in Australia.

The overall level of premium placed by insurance brokers has reduced in recent years, indicating the very competitive nature of the market in which insurance brokers operate. APRA data indicates the total premium invoiced by insurance intermediaries in recent years has been as follows¹:

2015/16	\$18,486 million
2014/15	\$18,576 million
2013/14	\$18,635 million
2012/13	\$17,850 million
2011/12	\$16,877 million
2010/11	\$15,525 million.

The premium increases between 2010 and 2012 reflect the industry's reaction to the very significant weather events that occurred during that period, when billions were paid by the general insurance industry to support Australian individuals and businesses who had been affected by major cyclones, floods, storms and fires. The reduction in premiums in recent years has indicated the competitive

¹ Source: <http://www.apra.gov.au/GI/Publications/Pages/Intermediated-General-Insurance-Statistics.aspx>



nature of the market, with strong competitive pressure between insurers causing reductions in the cost of most areas of commercial insurance.

This data indicates and confirms the cost of insurance is driven by the cost of claims, and also by the nature and level of competitive pressure operating within the market.

Terms of Reference

The remainder of this submission will address the Inquiry's Terms of Reference.

(a) the increase in the cost of home, strata and car insurance cover over the past decade in comparison to wage growth over the same period;

By and large, there is likely to be little correlation between the cost of home, strata and car insurance on the one hand and wage growth on the other. The cost of insurance is largely driven by the cost of claims, and the nature and level of cover provided under the policies.

Data above shows that premiums invoiced by insurance brokers has reduced in recent years, although this largely reflects strong competitive pressure in the commercial insurance area.

According to APRA data², gross written premium for "houseowners/householders" insurance, which would include home buildings and contents insurance, was \$7,882 million in the 12 months to 30 September 2016. The average premium for that period was \$668, an increase of \$5 on the average premium for the prior 12 months.

During the same period, the gross written premium for "domestic motor vehicle" insurance was \$8,625 million. The average premium for the period was \$566, an increase of \$7 on the average premium for the prior 12 months.

Over the past decade, insurers offering home, strata and car insurance have supported losses incurred by thousands of Australians following major weather and natural disaster events including cyclones, storms, floods and fires. Billions have been returned to the Australian community to help people recover from their losses arising from these events.

At the same time, general insurance companies introduced flood cover for the great majority of properties, providing much greater confidence to the Australian community in relation to this type of loss. The risk of flood is priced, and is included in the home and contents policies offered in the

² Source: <http://www.apra.gov.au/GI/Publications/Documents/1116%20-%20QGIPS-Sep-2016.pdf>



market. Most properties have limited exposure to flood, but many properties are exposed, and where this occurs the potential for damage can be large. There is a large body of technical information which indicates the relative risk of flood across the Australian community³.

Rather than comparing the cost of home, strata and car insurance with wage growth, attention should be given to the cost of claims, the profitability of the various categories of insurance, and the nature and level of cover provided by those categories of insurance.

NIBA notes that the cost of home, contents and strata insurance in North Queensland has been examined in detail by the Australian Government Actuary, and reports on these matters were issued in October 2012, June 2014 and December 2014⁴.

(b) competition in Australia's \$28 billion home, strata and car insurance industries;

As noted above, the gross written premium for domestic property and motor vehicle insurance during 2015/16 was \$16,507 million. Further detailed information about these categories of insurance is available in the APRA General Insurance Statistics reports.

Competition in home, strata and car insurance is strong, with two major insurance groups (IAG Group and Suncorp Group), and a number of "challenger" companies and brands offering cover through a variety of channels – telephone, internet, and a large number of retail outlets such as banks and Australia's two major supermarket chains.

There is no doubt that IAG and Suncorp have dominant positions in the Australian market for domestic insurance, but consumers have easy access to a number of alternative suppliers via the telephone or the internet.

(c) transparency in Australia's home, strata and car insurance industries;

Transparency in relation to domestic insurance operates in two ways. At the product level, each insurer must provide a Product Disclosure Statement to the consumer, setting out the terms and conditions of cover being provided.

³ See, for example, the September 2011 report of the Natural Disaster Insurance Review, available at: http://www.ndir.gov.au/content/report/downloads/NDIR_final.pdf

⁴ See: <http://www.aga.gov.au/publications/>



NIBA notes that there are concerns regarding the effectiveness of product disclosure arrangements in Australia at the present time. The publication by the Insurance Council of Australia's Effective Disclosure Taskforce⁵ report *Too Long; Didn't Read – Enhancing General Insurance Disclosure* outlines the issues and concerns regarding effective disclosure in relation to domestic insurance.

The other area of transparency is in relation to the financial performance of domestic insurance policies. This information is published quarterly by APRA⁶.

It is critically important to note that each insurance policy can be and most likely is different. While there are standard cover provisions in the Insurance Contracts Act and the Insurance Contracts Regulations, insurers develop and offer their own terms and conditions of cover, and it should not be assumed that policies widely available for domestic insurance risks are identical in the cover they offer. This also applies in other areas of domestic insurance such as travel.

The net result of these variations in cover being offered is that it is possible for insurers to offer cheap insurance by providing limited cover, or offer more comprehensive cover – but at a higher price. Price should not be taken as the key factor in differentiating between insurance policies offered in the market.

(d) the effect in other jurisdictions of independent home, strata and car insurance comparison services on insurance cover costs;

Insurance comparison services have been a feature of the insurance markets in the United Kingdom for a number of years. NIBA's understanding is that they have added competitive pressure on the cost of motor insurance, to the point where APRA expressed concerns about similar features being introduced in Australia, because they start to challenge the viability of the product being offered at very low prices. After all, the Royal Commission found that HIH Insurance failed because of the failure to charge correct prices for the risks it was insuring.

(e) the costs and benefits associated with the establishment of an independent home, strata and car insurance comparison service in Australia;

⁵ The report is available at: <http://www.insurancecouncil.com.au/issue-submissions/reports/too-long-didnt-read-enhancing-general-insurance-disclosure>

⁶ See: <http://www.apra.gov.au/GI/Publications/Pages/general-insurers-statistics.aspx>



NIBA firmly believes there are three important considerations that need to be taken into account when considering the purchase of insurance:

- the nature of the risk that is to be insured;
- the terms and conditions of cover being offered by the insurer, and whether they actually cover the risks that have been identified; and
- the cost of the insurance.

Apparently similar people living in a suburban street can have very different risks from an insurance perspective. One person may have a bad driving record, and convictions for drunk or drug driving. Another person may have valuable artworks or jewellery in their home. The property might have features, such as exposure to flooding, that other properties in a street do not have. A property might be located in a bushfire prone area, with a high BAL (Bushfire Attack Level) rating.

There are many considerations which can and should influence the nature of cover being purchased.

As noted above, the terms and conditions of cover vary widely. Most domestic insurance is sold directly by insurers or the insurer's agent to consumers, with no advice as to whether the policy actually meets the consumer's risk needs. The consumer has to determine whether the terms of the policy, and the value of the sum insured, are adequate to give them the protection they are looking for. The Insurance Council's report *Too long; Didn't Read* is relevant in this regard.

It is only when a policy that matches the consumer's risk needs has been identified that the issue of price should be taken into account.

NIBA's observation is that insurance comparison services are invariably price comparison services, with little or no assistance or support to consumers on the nature of risks or the terms of conditions of the policies that are being offered through the site. Where this occurs, the consumer is highly likely to misunderstand what it is they are paying for, and is likely to make a decision on an assumption that their risks will be insured when there is a real chance they may not.

(f) legislative and other changes necessary to facilitate an independent home, strata and car insurance comparison service in Australia

NIBA has very strong reservations in relation to any proposition in favour of an insurance comparison service.



Anyone having difficulty determining whether the insurance cover in the market is suitable to their needs should seek advice from a qualified and experienced expert in the field: a licensed insurance broker.

In the meantime, NIBA recognises and supports efforts by the Insurance Council of Australia to improve product disclosure and understanding for domestic insurance products.

(g) any related matters

NIBA would be pleased to assist the Committee with any other matter relating to the operation of the general insurance industry in Australia.

If you would like to discuss any aspect of this matter further do not hesitate to contact us.

Dallas Booth

Chief Executive Officer

Email:

National Insurance Brokers Association of Australia