

**The Board of Directors  
State Insurance Regulatory Authority**

**National Insurance Brokers Association of Australia (NIBA) submission on the discussion paper “Reforming insurer profit in compulsory third party (CTP) motor vehicle insurance”**

The National Insurance Brokers Association of Australia (NIBA) appreciates the opportunity to make a submission to the SIRA Board of Directors in response to the Discussion Paper Reforming insurer profit in compulsory third party (CTP) motor vehicle insurance.

NIBA represents over 300 insurance broking firms across Australia, the majority of which are small to medium businesses. Member firms are located in the cities, towns and regions across Australia, and many members are located in the regional and rural areas of New South Wales.

Insurance broking firms provide traditional insurance broking and risk management advice in the areas of property and liability insurance, and in many cases broking firms also provide advice in relation to life risk insurance (as opposed to life investment products).

NIBA is grateful for the opportunity to provide this submission.

**The Role of Insurance Brokers**

NIBA member firms include large multinational corporations, large Australian broking companies, and a large number of medium and small brokerages operating in the cities, towns and regions right across Australia.

Insurance brokers in Australia all hold an Australian Financial Services Licence under the Corporations Act, which enables them to deal in or advise on risk insurance products. Brokers are regulated by the Australian Securities and Investments Commission.

At a high level, the presence of insurance brokers in the intermediated insurance sector achieves three important and significant outcomes:

1. Insurance brokers are the distribution mechanism for insurers who operate in the intermediated insurance sector. Because insurance brokers provide the distribution process for these insurers, the insurers do not incur the expense of maintaining their own sales and distribution processes for the sale of product to clients of insurance brokers.
2. Insurance brokers provide advice and assistance to their clients in relation to the purchase of insurance products – see further comments below.
3. The fact that insurance brokers can access a number of suppliers or sources of cover, they create and perform the operation of the insurance market for intermediated insurance. Insurers know they must be competitive in relation to the terms and conditions of the policies they offer, and in relation to the price they charge

for the cover being supplied. Insurance brokers maintain competitive pressure by being able to select from competing insurance suppliers.

In relation to advising and assisting clients, the traditional role of insurance brokers is to –

- Assist customers to assess and manage their risks, and provide advice on risk financing and risk transfer, including what insurance 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 that has been arranged.

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 benefits to insurance suppliers, as they determine the appropriate nature and level of cover the client requires (and answer any questions the client may have in relation to the insurance), they determine the appropriate premium category that is relevant for the client's vehicles, they enter client data directly into the insurer's system (which then links directly to RMS), and they collect and remit the premium to insurers. In this way, insurance brokers are effectively undertaking the policy administration process on behalf of the insurer.

Insurance brokers offer many benefits to customers and 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, with higher success rates for clients who use a broker than those who do not.

Insurance brokers also assist clients with refunds and cancellations, and also assist with the removal of errors in transactions.

In limited cases, the insurance broker 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.

## **Discussion Paper**

In providing this submission, NIBA would like to specifically reference the following areas of the Discussion Paper:

- Additional commercial vehicle rating changes;
- Caps on expenses.

### **Additional commercial vehicle rating changes**

The Discussion Paper proposes an expansion of the bonus/malus range for commercial vehicles “to increase competition, especially among lower risk vehicles and fleets”.

The bonus/malus process inherent in the premium setting framework for CTP insurance in NSW creates a community rating mechanism whereby the premiums for higher risk vehicles are kept at affordable levels by limiting the discounts available to the lower risk, safer vehicles.

The Discussion Paper provides no information on what changes are intended to be made to the bonus/malus arrangements for commercial vehicles, nor does the Discussion Paper give any indication of the potential impact these changes will make to the premiums of lower and higher risk vehicles.

It will be important that commercial vehicle owners know and understand the potential impact of these changes. It will also be important that insurance brokers, who invariably arrange the insurance cover for commercial vehicle owners and operators, understand the operation of the proposed bonus/malus arrangements, so they can offer appropriate advice and risk management assistance to their clients (as they do for their property insurance risks).

NIBA normally supports the correct pricing of risk, and the need for insurance companies to have the capacity to form their judgment about the risk pricing models they wish to implement. However, as noted above, CTP insurance in NSW involves substantial elements of community rating, and the normal rules relating to the pricing of risk do not apply.

We would therefore appreciate the opportunity to consider these proposals in detail, when available, so that with the help of our Members we can assess the likely impact of the proposed changes on the insurance market and on their clients.

### **Caps on Expenses**

The Discussion Paper indicates “the Government is proposing to introduce legislated caps on expenses in premiums, including particularly acquisition costs and commissions paid to intermediaries”.

No information is provided in the Discussion Paper in relation to the nature of any changes that are being considered by the Government.

In relation to acquisition costs, it is important to note that acquisition costs arise as follows:

- Cost of sales and distribution directly by insurers, via branches, telephone call centres and internet based sales;

- Cost of sales and distribution where an insurer appoints an agent for the distribution of its product on behalf of the insurer (a common example is where insurance companies appoint motor dealers to sell CTP and other forms of motor insurance on their behalf);
- Cost of sales and distribution where the distribution is via an intermediary such as an insurance broker.

As noted above, insurance brokers play a key role in the distribution of insurance products, and provide real value to insurers because of the way in which they operate and the services they provide to insurance companies by operating as their distribution channel. Insurance brokers also provide real value to their clients in the form of expert knowledge and advice on the nature of insurance being purchased. Insurance brokers also operate a market mechanism which provides competitive pressure on insurance suppliers, and gives clients who are unfamiliar with the insurance process, access to competitive products and services.

NIBA firmly submits that the any proposal to regulate acquisition costs, cap expenses and limit or remove commissions should be preceded by a careful analysis of the various distribution channels, the cost of distribution via those channels, and the value and benefit provided by the operators of those channels in terms of convenience and advice to the community.

The reality today is that many people in the community have the option to purchase CTP Green Slips directly from a CTP insurer, but they chose to deal with an insurance broker because they have confidence in the advice and assistance they will receive from the broker. In providing that advice and assistance to the client, the broker is also providing a valuable service to the CTP insurer, and is assisting the overall efficient operation of the CTP scheme.

NIBA submits that no action should be taken in relation to acquisition and related expenses unless and until proposed reforms are clearly articulated, and a clear cost/benefit analysis has been undertaken in relation to the likely impact of those reforms.

Please do not hesitate to contact us if you would like to discuss any aspect of this submission.

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