

Inside Strata Summer 2020 » Sponsor Article » Can Commission Transition?

# Can Commission Transition?



An issue of trust

**The fallout from the Hayne Royal Commission into the Banking and Financial Services Industry continues to bring headlines of poor financial advice behaviour, with alarming examples of greed and abuses of customer trust.**

Separately, the ACCC's three-year study into the insurance affordability crisis in Northern Australia has called for a ban on insurance commissions and recommended Strata Managers only receive payments from Owners Corporations for insurance work performed. This is supported by ASIC and consumer lobby groups.

However, Commissioner Hayne stopped short of a complete ban and asked ASIC to further review the quality of advice and insurance commissions by the end of 2022.

## **Barriers to engagement and trust**

The complexity of financial products requires a moderately advanced level of financial literacy to assess their appropriateness. Even when a trusted advisor like a professional broker or financial adviser is involved, the voluminous documentation and jargon results in a lack of customer engagement.

So, while the detail regarding commissions, fees and charges is disclosed within product documentation, it isn't transparent if there's no discussion.

In addition, a "sales mentality" has fostered cultures that disregard customers' best interests and promote individual and corporate self-interest.

What was initially a financial advice problem may have the potential to spread across the entire financial services sector, including some forms of insurance.

## **Consequences for general and strata insurance**

Brokers and Strata Managers have three years to convince ASIC the current model, or a voluntarily adapted version, is appropriate for the post-Hayne era.

Leadership must persuade consumer groups and the broader community that their best interests are being protected and respected. While consumers must believe they're getting real value through providers demonstrating integrity that's driven by a higher purpose than their own profit.

### **Why retain commission?**

Strata insurance, and commission in general, has always been about relationship-based service delivery not transactional sales.

- Supports the pooling and aggregation of risks.
- Retains existing / attracts new capital providers.
- Drives product innovation.

It's a promise to provide advice, service and support on demand, regardless of the actual cost.

Removing commission would pass costs back to consumers and underwriters, who'd have to use their own time and resources to do similar work without the expertise or leverage an intermediary brings. • Fixed fees put the focus on single risks and often ends in a price war.

- No easy access to advice for customers or Strata Managers.
- Potential for greater underinsurance.
- Claims processed for a fee or time-based incentive don't encourage efficiency.

### **The unique strata situation**

Strata owners are subject to onerous joint and several liability to fund any issues that affect common property, so strata insurance is compulsory by law. It's a complex business-like package of 10 or more separate covers, so most Owners Committees delegate arranging this to Strata Managers.

The Regulators believe commission payments to insurance agencies and brokers, which often flow through to Strata Managers as their Authorised Representatives, could be inflating costs to owners. • Most Strata Managers receive commission when they place / renew policies – up to 20% of the base premium. • Specialist brokers can also charge brokerage fees for their advice and claims advocacy work.

In practice, this has led to insurance policies with more generous cover than the legislative standards require. And by aggregating portfolios, there's been more favourable pricing and less underinsurance.

### **Commission-based insurance services**

- Providing general advice
- Sourcing relevant data and disclosure information, eg defects, repairs, past claims
- Sourcing quotes, finding markets
- Completing and lodging documents, claims triage and management
- Collecting premiums
- Obtaining certificates of currencies
- Coordinating repairs
- Advocacy and claims processing
- Arranging insurance valuations

- Ongoing education and accreditation

Removing commission could lead to the failure of many Strata Managers operating as small businesses – a significant loss to a specialist insurance market that represents around \$800m in Australia.

### **An opportunity**

Leading up to ASIC's 2022 review, there's plenty we can do.

Brokers are reviewing their current arrangements alongside representative body NIBA, and have engaged Deloitte to highlight their value proposition as many brokerages may fail in a fee only environment.

Through the recent SCA Strata Leading Change initiative, BCB partnered with CHU and Macquarie Bank to develop plans for more consumer engagement and demonstrate value within the current commission model.

We recognise the sector needs to shift towards valued customer outcomes by collectively focusing on pain-points, helping prepare for the unexpected and recovery after loss, and building financial resilience in strata communities.

We have an opportunity not afforded to many. We have time. So, let's work together and create the future we all know is possible.



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