



# Not Everyone Who Smiles at You Is Your Friend

Behind the Crisis of Confidence Undermining Insurance in Australia

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## A crisis of trust

*“Be very careful who you trust”, the saying goes. “The devil was once an angel.”*

Trust is a frail and multidimensional beast; it can be logical, emotional – and both! We often think about trust as being intangible. Yet without trust, real things disintegrate – sometimes with frightening speed and with devastating effect: relationships, businesses, even lives.

How can we trade goods, services and currency to create a healthy economy and lives for ourselves and our loved ones if we don't or can't trust each other?

Lack of trust is arguably the single biggest challenge currently facing the insurance industry, not just here in Australia but around the world. Lack of trust in insurers and brokers is translating into enormous anxiety for business owners of all kinds. Which insurance brokers can clients really trust? How do clients know who to place their trust in? How can they tell when that trust might be about to cost them dearly?

And yet businesses and their owners have little option but to trust their insurance brokers. They have to trust someone. After all, not being insured is hardly a viable option. Few of us can afford not to be protected and only the brave or the foolish would try and decipher the wording and meanings of even the most basic policy, let alone a complicated one.

The defensive blanket provided by our insurers underpins the confidence without which modern business would simply grind to a halt. It allows businesses to make good decisions and manage risk in order to survive – and hopefully to thrive. Not having insurance or being underinsured or poorly insured destroys companies and ruins people's lives. This isn't alarmist – we've all at least heard of people this has happened to. Many of us have seen it happen to our friends – or had it happen to ourselves.

Unfortunately, the stats on the correlation between trust and the insurance industry don't make for reassuring reading.

- In a 2014 global survey of 24,000 life and general insurance clients, EY found just 53% of Australians trusted insurers. It was one of the lowest levels of trust among 30 countries surveyed. Australians trust insurers less than banks and supermarkets – which is saying something.<sup>1</sup>
- Since 2007, every year of a survey conducted by IBM has shown over 50% of clients distrust insurance providers.<sup>2</sup>
- A 2014 report from PwC asked over 2,000 people across the UK and found out that only 27% of them trusted their insurance providers.<sup>3</sup>

Meanwhile, Roy Morgan’s Image of Professions survey has been conducted since 2001, asking 600 to 700 Australians about ethics and honesty across different occupations. Insurance brokers consistently rate consistently as the third or fourth-last profession out of thirty, lower than politicians! At least they’re higher than the least trusted profession – car salesmen.<sup>4</sup> These are awful results for the industry and individuals involved – and they need to change, for everyone’s sake.

<sup>1</sup> <http://www.ey.com/GL/en/Industries/Financial-Services/Insurance/ey-2014-global-customer-insurance-survey>

<sup>2</sup> <https://www.ibm.com/blogs/commerce/2015/09/do-you-trust-your-insurance-company/>

<sup>3</sup> [http://pwc.blogs.com/files/how-financial-services-lost-its-mojo---and-how-it-can-get-it-back\\_full-report.pdf](http://pwc.blogs.com/files/how-financial-services-lost-its-mojo---and-how-it-can-get-it-back_full-report.pdf)

<sup>4</sup> <http://www.news.com.au/finance/work/careers/australias-mostand-least-trusted-professions-politicians-are-on-the-rise-butnurses-still-dominate/newsstory/%209fe9360588b7efd9be9f8e2344bec3466>

## The result is a ticking bomb of under-protection



If problems of trust discourage businesses from taking out the insurance they need, the potential consequences in the event of something bad or unexpected happening are dire. Insurance protects our assets, businesses and families. Life’s calamities aren’t predictable.

So, what’s the best option? Do we cross our fingers to not experience accidents, legal actions, fires or illness? Or can we prepare just in case something happens? Insurance won’t prevent bad things from happening, but it will make sure we are still intact, afterwards, if they do.

However, this crisis of trust described above interferes with businesses and individuals taking out the right protection.

Rice Warner’s report, Underinsurance in Australia 2015, highlighted that the level of insurance needed by Australians is not covered by what they have in place, and the gap is particularly large for young families.<sup>5</sup>

A 2005 Investment and Financial Services Association of Australia (IFSA) study reported that parents with dependents were underinsured by \$1.37 trillion!

A 2007 report from Swiss Re Economic Research and Consulting ranked Australia as one of the most underinsured of developed world countries for life insurance, a lowly 16th place.

Meanwhile, in the United Kingdom, as reported in the Financial Times Adviser, a survey of 502 self-employed workers showed only 10% had income protection

(possibly related to the finding that 45% believed that insurers would deliberately not pay claims).<sup>6</sup> Business insurance coverage, particularly for mid-sized and smaller businesses, fares no better.

Australia’s Association of Financial Advisers reports there are two more factors that frequently contribute to this risky situation of underinsurance.

Many business clients have low awareness and/or a poor understanding of complex insurance products, their own business risk profiles and insurance needs and whether what they currently have in place is adequate or not in light of those specific risk profiles. Others don’t fully understand the risks their organisations are exposed to and some are in a kind of state of denial about the need for any protection at all.

Yet another problem caused by mistrust is insurance fraud.

A 2016 AXA report found one-third of Britons had committed insurance fraud. How can that be? Because clients don’t trust their brokers or insurers, they justified fraud on the basis that they believed their insurers were trying to trick them with fine print and other means, and so were fair game.

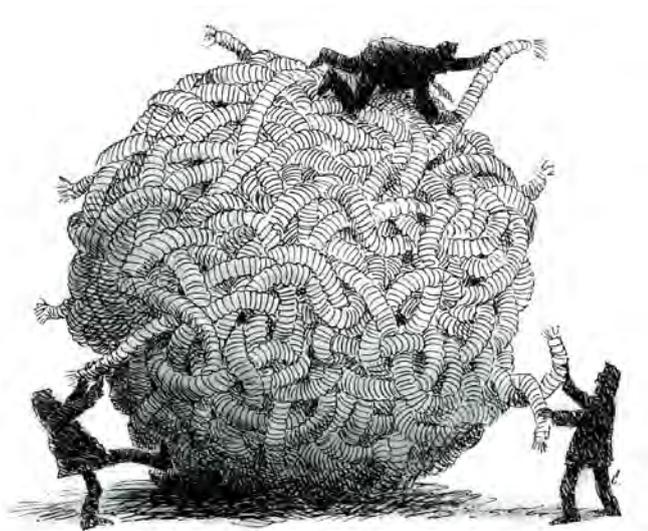


And what has been the unintended social cost? Bad news for everyone. Insurance fraud raises the costs of insurance premiums across the board for clients, while further undermining faith in the industry in general.

<sup>3</sup><http://ricewarner.com/australias-relentless-underinsurance-gap/>

<sup>6</sup><http://www.ftadviser.com/2015/05/28/insurance/health-and-protection/lack-of-trust-leads-to-drastic-lack-of-protection-6pOmdiMePKVYdoXvMpiokM/article.html>

## How did we create such an awful mess?



How did the insurance industry create such a mess? Well, the Gordian knot that is the modern insurance industry is a rather complicated story with a few

different but interconnecting chapters.

The predominant model of insurance at one time saw insurance purchased through networks of tied agents, tied in the sense that they were most often directly employed or tied to a particular insurance company. They purported to be independent but in reality were anything but: agents would only promote their company’s products to their clients, earning commissions for doing so. For the most part, an agent’s exclusivity to a particular insurer – and the fact that they were being paid lucrative commissions by those insurers – were never disclosed to their clients.

In blissful ignorance of the fact they were the chumps at the end of a conga line of deception and greed, the clients accepted their agents’ “expert and independent” advice and handed over their cash. The

mainstream media is now swarming with stories of companies and consumers who later found out not only that they were paying secret commissions through the nose, but that the protection they thought they had was nothing but a cynical charade.

Businesses – and lives – have been lost, and the industry to its shame, has responded with lies and obfuscation.

That model began to break down around the turn of the last century with calls for greater regulation and transparency. This should have been good for clients. It should have provided them with more transparency to know what they're paying for and allow them to make better comparisons between products. Insurance companies flooded and continue to flood the market with a bewildering variety of plans and products. This makes those choices confounding, complex and often downright impossible.

Insurance brokers, marketing all these different products, more often than not leave their clients wondering whose side their on – or worse, whether they're actually on both sides. With so much competition between them, and with the pace of the digital economy, clients often feel pressured or even coerced to purchase insurance, leading to a lack of trust.

Few brokers change off-the-shelf products to suit the specific circumstances and needs of their clients. Whether through laziness, incompetence or simply oversight, the real issue is that there is really no

mechanism currently to hold them to account. It's just left to trust – and the hope that nothing goes wrong.

Unfortunately it does go wrong. Witness the self-inflicted damage to the life insurance industry from its own members coercing clients to change insurance and buy new and frequently inferior products, at a high start-up cost, purely so they could earn higher commissions from insurers. Or the recent revelations of dirty practices in the CBA's insurance business, CommInsure, highlighted again in the parliamentary committee hearings with the Big Four bank CEO's.

Other commentators have called out another of the elephants in the insurance lounge room. The

CEO of Momentum Retail, Mark van der Watt, called out the problem of products that are designed for profit – not for “providing what the client needs”. Former MD of Bright Grey and Scottish Provident, Roger Edwards, proposed that insurers focus on the benefits of products rather than the negative connotations of insurance such as disaster and death. EY reported that clients “want more attention from their insurers”, with Graham Handy of EY saying that the industry needs to “fundamentally rethink” how it communicates to its clients. The response from the industry? Awkward silence and the circling of wagons.



## Rebuilding the trust



Meg Brideson, General Manager, Marketing and Insights, at the Australia and New Zealand Institute of Insurance and Finance, recently noted “a major disconnect between the public perception of those in insurance and the good and very valuable work that professionals do.”<sup>8</sup>

As brokers, we can comfort ourselves that it’s all simply a matter of the “public” having the wrong idea about insurance professionals and the wonderful work we do. We can also continue to kid ourselves that the cause of that shocking (but misplaced) perception is those few rotten apples who tarnish the whole industry with the same dirty brush.

But’s lets stop lying to ourselves – and our clients. As an industry we have a terrible reputation and whether we like to admit it or not, it’s well deserved. Recent events including but not isolated to CommInsure’s appalling treatment of some of its clients, only serve to reinforce that reputation. When “mistakes” and “oversights” come to light, they only seem to do so as a result of the organisation in question being dragged kicking and screaming from the shadows. And the errors always seem to overwhelmingly favor the insurers, as numerous journalists and contributors

to social media have observed. I for one struggle to remember an instance where a major bank or insurer uncovered a massive error that went against them and in favor of their clients.

Anyone who thinks we’ve heard the end of organisational insurance scandals in this country is living in la-la land.

The simple fact is that as brokers we need to take our roles as trusted advisors much more seriously if we are not to lose that status completely. We need to show that we are acting in the interest of our clients, and prove our value to them – and for them. If we want to be regarded as partners, we should start acting like partners – not like people shoveling overpriced and poorly considered insurance products on people who trust us to advise and protect them. If we can’t or won’t step up, this industry of ours will become increasingly vulnerable – along with many of our clients.

<sup>8</sup><http://www.insurancebusinessonline.com.au/au/news/breaking-news/insurance-brokers-amongnations-least-trusted-workers-survey-says-215833.aspx>