



31 May 2013

## **NATIONAL INSURANCE BROKERS ASSOCIATION OF AUSTRALIA (NIBA)**

### **Submission on**

### **SHAPING A NATIONAL FINANCIAL LITERACY STRATEGY**

**2014 - 2016**

#### **ABOUT NIBA**

NIBA is the voice of the insurance broking industry in Australia. NIBA represents 400 member firms and over 3,000 individual Qualified Practising Insurance Brokers (QPIBS) throughout Australia.

Brokers handle almost 90% of the commercial insurance transacted in Australia, and play a major role in insurance distribution, handling an estimated \$16 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 400 member firms all hold an Australian financial services (AFS) licence under the Corporations Act that enables them to deal in or advise on Risk Insurance products.

NIBA appreciates the opportunity to be able to provide comments and suggestions in response to the ASIC Consultation Paper Shaping a National Financial Literacy Strategy for 2014 - 2016.

#### **ABOUT INSURANCE BROKERS**

The traditional role of insurance brokers is to:

- assist customers to assess and manage their risks, and provide advice on 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.

Insurance brokers act for individuals, small and medium size businesses, large national and multi-national corporations, governments and other organisations.



In doing the above the insurance broker acts on behalf of the customer as their agent. Insurance brokers offer many benefits to their clients:

- 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;
- for larger corporations, assistance and advice on alternative risk transfer options, including captive insurance and other arrangements; and
- assistance with claims negotiation and resolution, invariably achieving a better claims outcome than in cases where the insured deals directly with the insurer.

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.

## **SUBMISSION**

### 1. One strategy or a series of strategies

NIBA was pleased to have had the opportunity to participate in the ASIC National Financial Literacy Forum 2013. The discussions that took place on that day indicate that financial literacy gives rise to a range of challenges, often dealing with very different sectors of the community, different age groups, different levels of education and understanding, and therefore likely to result in different responses and strategies.

This tends to suggest that the National Financial Literacy Strategy should in fact consist of a number of financial literacy strategies, specifically targeted at the relevant need and audience.

As a starting point, financial literacy programs need to be developed and targeted at the various stages of life events. These include –

- primary and secondary school, leading to the setting up of first bank accounts, savings programs, managing financial commitments for things like mobile smart phones, and for later high school years, purchasing the first car (including ongoing maintenance, registration and insurance);
- purchasing assets in the 20's and 30's, including the purchase of the first home, associated furniture and other assets, leading to the need for more sophisticated financial management and asset protection, including insurance;
- marriage, children and associated challenges, where two full time incomes may no longer be available to the household;



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- heading towards retirement in the late 40's and 50's, where superannuation and retirement income streams start to become critically important; and
- transition to and living in retirement.

Each of these phases have very specific challenges, and financial literacy strategies need to be developed and targeted at the relevant groups in an appropriate and effective manner.

In addition to the challenges that arise at various stage of lifetime development, the National Financial Literacy Forum also demonstrated that there are other groups within the community who have specific needs that will need to be addressed. These include people who are financially insecure or who have very low incomes, people with disabilities, and older Australians.

A single over-arching financial literacy strategy which purports to encompass all these challenges is likely to be ineffective. A range of programs dealing with specific areas of challenge and concern are likely to be far more effective in the medium term.

## 2. Information or advice

Many financial literacy needs can and should be addressed by the provision of information and educational materials. There is an important role for financial literacy in school education, creating the foundation for a better understanding of financial management issues and challenges later in life.

Product issuers (banks, insurance companies, and the like) provide a wide range of products and services, and market these products and services extensively across the community. Importantly, most of these product issues are not licensed to give personal advice to individual consumers. They simply provide information about the products they are selling, with little or no reference to the relevance of those products to the needs or circumstances of the customer, and certainly no reference to the fact that the customer might be better served by a product from another company.

Some people will spend considerable time and effort trying to understand the range of products available on the market, and will make a purchasing decision on their own inquiries and research. Even then, they will not necessarily make the best decision for their particular needs and circumstances. Even competent, intelligent and financially aware people need advice to ensure the products they are buying are in fact suited to their needs and circumstances.

## 3. A word about risk

Currently, there is very little education or information about risk. We all face risk in our daily lives, whether it be risks relating to road crashes, workplace injury or disease, damage to or loss of property, and more importantly, risks associated with managing or owning a business.



Insurance is a process whereby risk is identified, quantified and transferred to an insurer, in return for the payment of a premium. The insurer pools a number of like risks, and responds when an insured event occurs.

Very few people know and understand the nature of the risks they carry, in both their private and business lives. Even fewer people know and understand the nature and range of insurance solutions that are available and can respond to the various types of risk. Advice is critical to ensure people are purchasing insurance solutions that genuinely match and meet their needs.

#### 4. Financial literacy or advice?

Government agencies, NGO's, charities and other groups are simply not equipped, resourced, educated or skilled to provide advice across the community on risk and insurance matters.

More importantly, simple and straightforward information, such as that available on the ASIC MoneySmart site, can only be the beginning of a process of developing financial literacy. It provides some questions to ask, and some issues to consider, but it does not and cannot provide comprehensive information on individual risks and challenges, nor can it provide comprehensive information on the range of commercial products and services that are available to insure those risks.

#### 5. Financial literacy must recognise and include advice

NIBA strongly submits that while financial literacy includes education and information relating to financial management and sound financial decision making, there is a real and important need in the community for access to and use of advice regarding their financial risks and insurance needs.

Of course we would say that – NIBA represents insurance brokers, and it is our job to say that. However, the recent experiences of Australians sharply demonstrate the positive effect of good advice, and the resulting benefits to the community.

During 2010, 2011, 2012 and earlier this year, Australians felt the full force of fire, storm, floods and other weather events. Many thousands of disputes were referred to the Financial Ombudsman Service, demonstrating a widespread lack of knowledge and understanding of insurance needs and the policies that people were buying, assuming they were products that would meet their needs. For many, that was not the case.

At the same time, there were some, but very few, disputes referred to the Financial Ombudsman Service regarding the advice given by insurance brokers. The value of advice, from a trained professional, was clearly apparent.



## **CONCLUSION**

NIBA strongly submits that it is simply not possible to provide consumers with education and information on the wide range of insurance products, services and solutions that are available in the market place.

NIBA strongly submits that a base level of financial knowledge and literacy is vital, but that good advice is far better than an unfortunate outcome where a substantial loss occurs.

NIBA is ready and willing to work with ASIC and the Government to ensure Australian consumers have access to sound, competent, professional advice on risk and insurance matters.

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

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