



The real cost push on brokers by industry

Legislation restrictions on the earnings of short-term insurance brokers permit them to earn revenue in three different ways: they receive statutory commission for selling and maintaining policies; they submit claims; and most importantly, they advise their clients on the types of available cover. They may be paid a binder fee by an insurer to cover the costs they have for performing functions like issuing policies and settling claims. If they perform functions for clients outside of what they are paid for by the insurer, they may, with permission, charge the client a fee.

Why then, are brokers feeling a cost push and increasingly finding it difficult to procure staff at the level needed to give a world class service to clients?

Historical context

Let us go back in history to the 1990's when I was a broker. We, like most medium sized brokers, earned only commission. We made a good living. However, change was on the horizon.

Firstly, service levels from insurer's dropped. The problem was not at a senior level but at the level where policies were issued and claims handled. It took numerous efforts to get a new policy document after changes has been made to the policy. What did we as brokers do? We simply started gearing up to issue policies ourselves that mirrored what we had requested, and that costed money.

Then came a tough time and the advent of value added tax. Insurers proudly announced that they would not need to increase rates, but would absorb the additional costs. Their additional costs were, after all, just the difference between the tax paid on a premium and claimed back on expenses and claims. Brokers woke up on 1 October 1991 7% poorer. The response of brokers was to negotiate with insurers to officially take over issuing policies and, in return, brokers were able to charge clients a fixed fee. And so the group scheme, previously only the domain of large corporate brokers, became common place in the market.

Competition rife

The broker market is, and has been for the last decade, very competitive, and the advent of direct players has not helped. There always seems to be someone cheaper in the market. If you do not get the best possible price for your client, then someone else will.

Up until last year, the major insurers were posting acceptable underwriting profits and were therefore prepared to look at small, or no, rate increases. Brokers live on a fixed percentage of

gross written premium, regardless of the underwriting results of their books. Inevitably, no premium increase means no increase in income for the broker.

One could say that the inflationary increases in sums insured should compensate, but once one has decreased motor vehicle values, the cost of staffing a brokerage has increased at a faster pace than the additional revenue generated. Add to this the increased cost of compliance, and the picture is not rosy.

Support and the road ahead

I am fully behind legislation, but there is a cost factor particularly to brokers. Good brokers always did needs analysis with their clients, and these were documented. Legislation does put a burden of proof on the broker, which costs money to monitor. Experienced brokers are technically sound, but do not always have the qualification to prove it.

Certification costs time and money

So, where does that leave brokers? It is not all doom and gloom. Provided that the work is not being duplicated by the insurer, binder fees assist without costing the client anything more. Last year was not a good underwriting year for the industry, and the resultant rate increases will certainly help the broker market. Beyond this, it is up to brokers to prove the value of their service to their clients if they wish to survive the next decade.



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