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Insurance and Finance Broking Services 2020

Industry Developments and Workforce Issues

Insurance and Finance Brokers.[1] This industry profile focuses predominantly on insurance and finance brokers (also referred to as mortgage brokers). Insurance brokers work with their clients to assist them understand and manage their risks, including the risk of loss of or damage to property or loss arising from liabilities associated with the operation of their business; put in place appropriate and agreed arrangements for the financing of those risks, including traditional risk transfer (insurance policies) and/or other risk financing mechanisms; and pursue claims under their policies when an insured event occurs, in which case the insurance broker becomes the advocate for the client during the assessment and resolution of the claim.[2] Finance brokers/mortgage brokers operate as independent agents in the course of financial negotiations and arrange loans of money on behalf of clients. They support lenders by offering choice, access to credit, drive competition through the increasingly diverse range of lenders and moderate dominance of the major lenders. Loan products are often complex and difficult to understand. Brokers usually represent multiple lenders' options and are familiar with a broad range of product offerings, meaning they can align personal requirements and negotiate on a person's behalf.[3]

Industry Overview.[4] The 2016 ABS Census indicates that at the time of the Census there were 998 insurance brokers and 1,674 finance brokers in Western Australia, majority of whom were employed in the Financial and Insurance Services industry sector.[5] The national labour market outlook[6] estimates an employment growth of 4.6% for the Financial and Insurance Services sector and an 8.5% growth in financial brokers[7] over the five years to 2024. Within this broader sector, while a 10.5% growth is expected in Auxiliary Finance and Insurance Services, projections indicate a decrease of 1.5% in Depository Financial Intermediation[8]. Most recent ABS figures for Western Australia[9] indicate that as of May 2020, the Auxiliary Finance and Insurance Services sector employed 11,000 (Auxiliary Finance and Investment Services 8,700 and Auxiliary Insurance Services 2,300), with Depository Financial Intermediation employing 8,100 people. A comparison of employment figures at the same time last year show a reduction in employment across both Auxiliary Finance and Insurance Services (14%) and Depository Financial Intermediation (23%). A drop in employment numbers across both sectors can also be seen against the February 2020 quarter (15% and 2.5% respectively).

[1] Industry advice provided to the Financial, Administrative and Professional Services Training Council, 2020..
[2] National Insurance Brokers Association, *Submission to ACCC Northern Australia Insurance Inquiry*, January 2018.
[3] Mortgage and Finance Association of Australia, *Benefits to consumers*.
[4] These figures do not take into account any impact caused by COVID-19. It reflects data collected prior to the effects of the pandemic which is having a substantial negative impact on the current labour market.
[5] ABS, 2016 Census, *ANZSCO 6 Digit x ANZSIC 1 Digit* spreadsheet provided by DTWD.
[6] Australian Government, Department of Jobs and Small Business, Labour Market Information Portal, *Occupation Projections 2019 Industry Employment Projections Report – five years to May 2024*.
[7] Australian Government, Department of Jobs and Small Business, Labour Market Information Portal, *Industry Projections 2019 Industry Employment Projections Report – five years to May 2024*.
[8] Australian Government, Department of Jobs and Small Business, Labour Market Information Portal, Employment Projections, *2019 Industry Projections – five years to May 2024*.
[9] Australian Bureau of Statistics, Labour Force Australia Detailed Quarterly, *Data Cube EQ06 Employed persons by industry group of main job (ANZSIC), Sex, State and Territory*, May 2020.

Mortgage and Finance Association of Australia's (MFAA) latest national figures[10] point to slightly contracted national broker numbers (16,598) after reaching a peak in September 2018 (17,040). The September 2019 quarter saw brokers' market share of all new residential home loan settlements fall to its lowest September quarter share in three years at 54.9%. This decrease of 4.2% compared to the previous September 2018 quarter, reflecting a correction in broker market share from a time when unusually tight credit corresponded with a higher-than-normal increase in broker market share. The share of broker-originated lending settled by the major banks dropped to a record low figure of 42.8% during the September 2019 quarter and the segment of lenders other than the major banks and their affiliates recorded a record-high market share of 38.5%. With credit policy and lending criteria less stringent and interest rates at an all-time low, access to lending has been made easier. This has seen lender's proprietary/direct channels settle more in the value of new home loans than the broker channel and take a larger portion of home loans.

In Western Australia there are close to 1,900 brokers (down from almost 2,000 the previous year). With an 11.5% of the national population of brokers, the state continues to have a higher share of broker numbers compared to their share of new loans settled, suggesting an overweight broker population. During the April-September 2019 period, Western Australian brokers recorded a 9.3% decline in home loans compared to the April-September 2018 period and while the average value settled was down 7.8% compared to the previous year, the state's overall loan book was up by 3% to $92.6 billion. The total number of loans lodged by brokers was down 3.1% compared to 2018 figures and the amount of money settled in home loans by the average broker was down by 4.8%. Despite the resulting fall in average upfront commissions, the state remains the highest trail-earning state at $72,825 with a broker turnover rising to 9% over the 6-month period.

Discussions with stakeholders representing finance brokers point to increasingly challenging work conditions, heightened workloads driven by additional compliance requirements and lower remuneration.[11] While the average gross remuneration generated per mortgage broker in the State sat at $123,504 when last surveyed, this is prior to costs per annum.[12] Gross remuneration generated means the total amount that lenders paid for the origination services provided by brokers. Out of the gross commission figures, brokers have to pay their own salaries and the fixed costs of doing business (premises costs, wages, marketing and service provision fees paid to aggregators). The challenge for newcomers into the industry is the delay in settlement payments which can take up to 3 months from lodgement. Without any trail commissions in place, lack of income deters new entrants from entering the industry. This may create challenges for succession planning when the current ageing workforce starts to retire.

Nationally, the broker network can be a one-person operation through to large numbers working for global corporates and while Western Australia does not have a huge insurance presence (no head office for general, life and health insurance sectors) it has lots of insurance brokers. Impacted by intensifying competition from insurers, banks and insurtech start-ups, insurance brokerage has also grown its revenue slightly (0.9%) over the past five years through to 2019, due to rising insurance premiums and consumer preference for purchasing insurance policies from brokers. Future growth is largely forecast to come from further outsourcing of insurance-related services and from Australia's ageing population. While increased insurance coverage is anticipated to support revenue growth, intensifying competition from alternative distribution channels and gradual changes to the commission structure on new policies will likely temper this growth. Insurers are increasingly investing in online sales platforms and new sales channels, such as bancassurance, to minimise expenses and reduce reliance on agents and brokers. Online comparison websites add further pressure on this sector.[13]

In Australia, people working as finance brokers predominantly hold formal qualifications at Diploma level and above.[14] To date, VET (Vocational Education and Training) and university have both been common study pathways for finance brokers. Under Regulatory Guide 206[15] the minimum training

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[10] Mortgage and Finance Association of Australia, *Industry Intelligence Service 9th Edition, for the six month period 1 April 2019 to 30 September 2019.*
[11] Smartline Personal Mortgage Advisors.
[12] Mortgage and Finance Association of Australia, *Industry Intelligence Service 9th Edition, for the six month period 1 April 2019 to 30 September 2019.*
[13] IBISWorld, *Insurance Brokerage in Australia – Market Research Report*.
[14] ABS, 2016 Census, *Census Qualification Level Mismatch* spreadsheet provided by DTWD.
[15] Australian Securities and Investments Commission, *RG 206 Credit licensing - Competence and training*.

required for mortgage brokers is the Certificate IV in Finance and Mortgage Broking, while the Mortgage and Finance Association of Australia require their members to obtain the Diploma of Finance and Mortgage Broking Management. You must also be registered with the Australian Securities and Investments Commission[16] and have an Australian Credit Licence (ACL)to engage in lending regulated by the National Credit Code which includes making loans to buy a residential property.[17] Financial brokers with experience can also specialise and become a commodities trader, financial market broker or investment banker.[18] Given the very high skill level to perform the role, many employers now seek candidates who provide good customer service and who have strong interpersonal skills.[19]

Regulatory Changes and Compliance. The ongoing review of financial institutions continue to transform the Australian financial sector. The recommendations which followed the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry are driving sweeping changes to operating models in the financial services market. They are reshaping the financial advice, life insurance and superannuation sectors, and the distribution model for retail credit. The recommendations relating to the insurance sector will bring it in line with the more heavily regulated areas of financial services.

The Royal Banking Commission and related enquiries have focused on how financial services organisations treat customers and explain products and services to them.[20] Resulting changes aim to balance customer rights and obligations to clients.[21] Such scrutiny led to a push for government to extend upcoming laws requiring mortgage brokers to other products such as mortgage insurance.[22] Earlier this year, the federal government passed legislation which introduced a duty for mortgage brokers to act in the best interests of home loan borrowers, backed by a civil penalty after Commissioner Kenneth Hayne called for mortgage brokers to be regulated more like financial advisers. Changes also prevent mortgage brokers from receiving bonus commissions for hitting sales targets and will no longer be allowed to receive additional campaign-based payments from banks.[23,24]

Similarly, recommendations to cease cross-selling of products and services will significantly change insurance, superannuation, and banking sales/distributions models. These will see product manufacturers and their distribution agents redesigning distribution arrangements Companies will operate under a new regime intended to increase the transparency and accountability of financial entities in these industries and improve risk culture and governance.[25,26,27,28] In light of this, the Australian Securities and Investments Commission (ASIC) ASIC is set to reassess renumeration structures, governance and compliance obligations in 2022 which will include the review of insurance and broker commissions for general and credit insurance products in 2022. Until then, industry is focusing on understanding the compliance it needs to adapt to and the new benchmarks being set.[29]

FASSEA Update. Financial Adviser Standards and Ethics Authority's (FASEA) changes to educational and test requirements now mandate a minimum of tertiary qualifications for anyone providing financial and personal advice on complex Tier 1 products. While FASEA do not recognise VET pathways for Tier 1 financial advice, vocational pathways still exist for people working in support roles who provide basic Tier 2 product advice.

The requirements do not apply to individuals who provide general advice or personal advice to retail clients about less complex Tier 2 products (basic banking products, general insurance). AISC's Regulatory Guide 146 will continue to apply to Tier 2 advice. As such, changes to the educational

[16] Australian Government, *Job Outlook – Finance Brokers*.
[17] Mortgage and Finance Association of Australia, Mortgage and Finance Help, *The importance of doing your research in a growing lender marketplace*.
[18] SEEK, *Career Advice – Finance Broker*, viewed 5 March 2020.
[19] Australian Government, *Job Outlook – 1322 Finance Managers*.
[20] Pwc Skills for Australia, *Industry Skills Forecast and Proposed Schedule of Work – Financial Services*, May 2019.
[21] EY, *How the royal commission impacts the financial services industry*, 20 August 2019.
[22] The Sydney Morning Herlad, *Stoush heats up over mortgage broker best interest duty*, 7 October 2019.
[23] Financial Review, *AMP embarks on whole of wealth cross-sell*, 15 February 2020.
[24] Financial Review, Josh Frydenberg fast tracks royal commission response, 18 August 2019.
[25] Insurance News, *MPs set April date for insurance scrutiny*, 10 February 2020.
[26] Clyde & Co, *Insurers operating in Australia can expect another layer of consumer protection*, 3 January 2020.
[27] Australian Securities and Investments Commission, *Corporate Governance Taskforce: Director and officer oversight of non-financial risk report*, October 2019.
[28] Mondaq, Australia, Corporate/Commercial Law, *Australia: Boards of Australian Insurance Companies To Come Under Closer Scrutiny*, 19 December 2019.
[29] Insurance Business Australia, *Royal Commission fallout: general insurance brokers can't rest on their laurels*, 6 February 2019.

requirements for financial planners will not affect credit licensees, including finance and mortgage brokers. Under Regulatory Guide 206[30] the minimum training required for mortgage brokers is the Certificate IV in Finance and Mortgage Broking, while the Mortgage and Finance Association of Australia require their members to obtain the Diploma of Finance and Mortgage Broking Management.[31,32]

Industry Workforce Priorities

Rebuilding Trust. The sector is committed to rebuilding trust, particularly in light of increasing community, government, and regulatory expectations around key issues such as culture, leadership, conduct, and governance.[33] A lot of these changes will mean investment in training, systems and people to ensure companies are compliant for when the relevant legislative and regulatory changes come into effect from 2021 onwards.[34]

Technology. Technology is allowing innovation in the design of products, risk assessment techniques and claims handling processes across clients, intermediaries and insurers. The digital influence on claims, underwriters and brokers is leading to less processing work for employees. Digital-first technologies such as cloud-based platforms, self-service insurance claims tools and channels for real-time access to carrier information will continue to shape industry. Harmonising technology, people and relationships will improve the claims experience and simplify processes for consumers.

Learning and Development. As technological advancements and digital transformation continue to drive change, industry professionals need to adapt well to change and continue to upskill at all levels, requiring a continuous learning mindset. They need to keep pace with rapidly evolving regulatory and compliance requirements, changing marketplace and product lines, as well as client expectations to lead and guide appropriate solutions to meet consumer needs. To support this process, insurance companies are sharing technical knowledge and skills, making sure that the risks that are emerging from insurers are well understood by brokers, employers, risk management and human resource professionals.[35] In-house, self-learning modules offered by these companies reflect the skills the organisation wants its workforce to develop.[36] They are providing brokers with education and resources to help them be successful, offering a range of continuing professional development online courses including personal growth and clients engagement to help navigate client interactions.[37] The underwriting agencies are leveraging technology to offer tailored solutions to their brokers.[38]

Changing Skills. The broker market has seen dramatic changes in the last 12 months which has resulted in the need for high calibre candidates who can provide sufficient advice to their clients. Across many industries, disruptive technological advances have caused large organisations to reconsider their current practices. Most insurance companies are adapting to an online system and agile working practices. The digital influence on claims, underwriters and brokers is leading to less processing work for employees, thus allowing them to spend more time on customer service. According to Hays, there is huge demand for underwriters who want to become brokers and vice-versa, although the salary expectations of candidates often do not match their soft and technical skills.[39]

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[30] Australian Securities and Investments Commission, RG 206 Credit licensing - Competence and training.
[31] Financial Adviser Standards and Ethics Authority, Education Standard commenced 1 January 2019.
[32] Financial Adviser Standards and Ethics Authority, FASEA Approved Degrees and Equivalent Qualifications and Courses to meet the Education Standard.
[33] Insurance Business Australia, No-frills Hayne recommendation to transform the Australian financial sector, 8 February 2019.
[34] Insurance Business Australia, Learning lessons from a crisis: Suncorp looks back at the bushfires, 2020.
[35] Insurance Business Australia, What role do brokers play in the modern insurance market?
[36] Hays, *Hays Insurance - Jobs Report – January to June 2020*.
[37] Vero, COVID-19 Partner Update, 30 April 2020.
[38] Insurance Business Australia, Technology is not the issue, we are, 13 April 2019.
[39] Hays, *Hays Insurance - Jobs Report – January to June 2020*.

A key focus has been the development of stronger partnerships with brokers and insurers to help deliver value for customers. They make sure the customer has the right insurance solutions for the right risks and are well protected.[40] The specialisation for brokers is their ability to understand customer demands and needs which, in turn, builds trust, and strengthens brand and reputation. Increasingly, brokers are delivering proactive services (advice and guidance) and undertaking more value-adding tasks such as analysis and business change options and risk profiling.[41]

COVID-19

Member Impact Survey.[42] In May 2020, the Australian and New Zealand Institute of Insurance and Finance (ANZIIF) conducted a survey of its members on the impact of COVID-19. Findings reflect 894 responses from industry, including individual insurance and finance professionals. Discussion with industry and comments from survey participants indicate that the economic fallout from business restrictions and closures is having a significant impact on the industry. Most members cited a decrease in workflow and loss of revenue. Clients downsizing, business closure and client hardship has led to reductions in new business. There is an expectation that reductions in customer demand and the need to work from home will continue to impact businesses over the coming months. However, for brokers the sophistication of systems and use of cloud-based technology has enabled continued access irrespective of worker location and ensured a relatively smooth transition to home-based service delivery from those who were not already working from home.

Member feedback points to many looking to ANZIIF for educational opportunities and training due to the impacts of COVID-19. ANZIIF deliver a range of industry-specific courses, including non-VET short courses which target specific knowledge or skill. A large amount of training is being driven by the new requirements of the revised General Insurance Code of Practice. All code signatories are required to be compliant by 1 July 2021. This includes the insurers and claims investigators, distributors and service suppliers, including underwriting agencies and brokers with delegated authority. While some larger organisations are developing their own training products, majority are turning to ANZIIF for solutions. With thousands of people registering, they anticipate 30,000 people will undertake the vulnerability training component across the entire supply chain by the end of the year to meet the Code's provisions by January 2021: *Supporting customers experiencing vulnerability and Financial hardship*. All remaining Code provisions are set to start on 1 July 2021.

Mergers and Acquisitions. Despite recorded employment figures of insurance brokers, discussions with industry point to increasing mergers and acquisitions in the insurance sector, such as those by Marsh[43], Aon[44] and Gallagher's (AJG).[45] This changing environment is likely to have a negative impact on employment numbers moving forward.

Growing Focus on Formal Training. COVID-19 has compressed the speed of change which will become more obvious once the pandemic subsides. It is likely the skills for brokers who wish to remain in the insurance profession will increase. Similarly, despite minimum accreditations standards, mortgage brokers will need to be better qualified if they wish to succeed. Formalised training programmes can only benefit these professions amidst a changing operating environment.[46]

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[40] Insurance Business Australia, What role do brokers play in the modern insurance market?
[41] Vero, *Helping brokers navigate in an era of change: Vero SME Insurance Index 2019*.
[42] Australian and New Zealand Institute of Insurance and Finance, *COVID-19 Member Impact Survey,* May 2020.
[43] Insurance Business Australia, *Marsh and JLT combo far from a steamroller merger*, 2 May 2020.
[44] Insurance Business Australia, *Aon, Willis Towers Watson mega-merger unveiled*, 9 March 2020.
[45] Yahoo Finance, *Arthur J. Gallagher (AJG) Expands in Brisbane with Buyout*, 9 June 2020.
[46] Austral Risk Services.