**Insurance-Oh What a Mess! By Robert Ross**

**This is a discussion paper written by an adviser of fast experience about the sheer stupidity being proposed by important players in the Insurance industry. It also provides a suggestion about how to rid the industry of these unresolved issues forever.**

**I do not know how to make you understand this but I will try.**

**Imagine a surgeon has a patient referred to him. After a few tests, xrays and scans the doctor tells the man he needs an operation. The man agrees and the doctor goes ahead. His bill is $5000. The man pays $500, Medicare pays $3000 and the man’s health insurer pays $1500. The doctor uses the money and pays his staff, rent, phones and power and is left with a bit to support his family. 3 months later the man loses his job and stops paying Medicare and cancels his health insurance. To the doctors horror he gets a bill form Medicare and the health insurer. They all want their money back. Impossible!! I hear you say.**

**Well take this example. A woman cooking dinner lets a chip fan catch alight. It partly destroys her kitchen. A cabinetmaker gives a quote. It is accepted by her insurer and he repairs the kitchen. She pays $200 towards the repair and the insurer pays the balance of $4,800. 8 months later the woman does not renew her insurance with that company but gets a policy somewhere else. To the cabinet makers consternation he is asked by the insurer to repay 75% of the $4,800. Ridiculous I think I hear you say.**

**Well what about this. A man buys a car for $10,000. He borrows from a bank to pay the seller. The man agrees to pay the bank by instalments over 3 years. After 1 year he sells the car and buys another. The bank writes to the original seller and asks him to either refund two thirds of the purchase price or to pay the balance of the instalments. The seller has actually guaranteed the banks repayment**

**Finally, what about this. A man asks a painter how much it would cost to paint his lounge room. The painter gives a quote. The man chooses the colour and the painter completes the job. The painter later hears that two other painters also quoted to paint the room. Their quote was not accepted. He is horrified to learn that though he actually painted the room the other painters got paid as well. “I don’t believe you, surely that’s not possible” you respond.**

**There is worse.. The man later changes his mind about the colour so he asks one of the previously unsuccessful painters to paint the room again. This painter gets paid again. To his disbelief the first painter is requested to refund the man for painting the room. What! You ask? The man just changed his mind. The painter refuses. The man takes the painter to court. The court orders him to repay.**

**Have we gone stark crazy mad???**

**Every one of these situations seems so ridiculous that you would laugh at them. They are neither fair nor reasonable. They are impossible.**

**Yet that is exactly the position that ASIC is asking every insurance adviser in Australia to be in. They are saying that when an adviser gives advice about insurance, even when a client accepts the advice and when an insurer who has given a quote accepts the proposal and the insurer sues a policy, if the man should change his mind within 3 years, of if the man later takes advice from another adviser and stops the first policy, the first adviser should repay every cent if the client does it in the first year and repay most of it if he changes his mind in the second year and repay part if he cancels in the third year.**

**Such proposals could only be dreamed up by someone who neither understands the industry nor understands basic human behaviour. Unbelievably ASIC believes it. The Australian Federal Government believes it and the insurers who you used to work for as an agent supports it.**

**Consumers do not believe it. They do not understand it. Ask a few of your clients and see what they say.**

**Such a proposal is so preposterous, it’s so immoral, is so plain wrong and if you are in the insurance industry or even care about it, you need to fight this with every strand of strength you have. I am 72 and I will.**

**Robert Ross is 72 years old. He was employed in the insurance industry since 1971 as agent, manager, recruiter and trainer, and then as authorised representative and certified financial planner. He was a director of the Prudential Agents Association, as well as Colonials. He was a Director of the Association of Financial Advisers. He worked with a number of regulators to develop selling practices for agents who advised on insurance. He has been a speaker a numerous Insurance conferences in Australia and overseas. At 72, he has not retired but works as a trainer and mentor for as group of professional insurance advisers. Here are his candid comments of what he sees today.**

**Insurance- Oh what a Mess.**

* **ASIC has presided over the wrecking of Insurance as a profession and as a respected industry.**
* **Various enquiries have failed to find any real problem in the insurance industry, so has resulted in manufacturing of one and enforcing solutions looking for problems to fix.**
* **Consumers have had to bear the cost of the solution and will continue to do so.**
* **Competition between insurers and Insurance advisers is non-existent.**
* **Interference by regulators by mandating what commission insurance companies must pay interferes with the operation of the free market and destroys competition.**
* **Ordinary Australians cannot afford to get advice and certainly cannot afford a second opinion.**
* **Proposals to limit commission to 60% of a first year’s premium or 20% of later years premium will render Insurance as a business an impossibility.**
* **There is a solution that makes paying for advice within the reach and choice of every Australian.**

**Unfortunately what I have to say here cannot be said in one minute grabs or 30 second bites. Like all meaningful research it takes time to read and understand issues. Journalists have no time. So they blindly restate what they have heard from other, usually that commission paid to advisers is the root of the problem and assume this to be correct and suppose others have done the research for them. Insurance companies know this. So no one addresses the real problem**

**I urge you to read this entire piece. I can be contacted on 0403464699.**

**1n 1845 AMP was formed as the first Insurance Company in Australia. Some years later they were joined by Colonial and National Mutual. These companies manufactured and sold insurance products. The insurance industry in Australia was already flourishing as a growing band of British Companies extended their insurance interests through mercantile and shipping agents operating here.**

**In 1845 there were no Insurance Acts. Insurance was regulated under the Gaming Act. As a gamble, insuring one’s life was often opposed by Churches which they thought was gambling with one’s life. In fact not insuring then as it is today, is gambling with your family’s financial wellbeing. It would be the end of the Century before the industry finally had its own Insurance Acts.**

**AMP, Colonial, National Mutual and others started as mutual companies, owned by policy holders, and all profits were returned to them as members.**

**The industry was competitive. Each company recruited and trained its own agents and paid them for their efforts to sell their policies. The best recruits were married men over 30, with families, and who understood the need for a degree of financial stability in a family and the need to budget. The retention rate of agents was low as not many could survive on the uncertainty of commission. Nevertheless commission emerged as the most suitable means of remuneration as it was directly linked to production.**

**Insurers were not Santa Clause then and are not Santa Clause now. They paid no more in commission than they had to attract and retain suitable candidates. In return for selling their policies, besides commission, insurers also provided Agents with services such as offices, telephone services and some secretarial help. Commission if measured against the annual premium paid by clients amounted to between 100% and 150%. Churning was practically unknown because one agent serviced the same client for generations and only worked for one company.**

**If one thing stood out it was training. AMP agents were trained second to none although in truth all agents were highly skilled and knowledgeable. It was normal in most communities to find insurance men on school boards, directors of charities, and serving as Justices of the Peace.**

**Insurance men were highly regarded professionally and morally. Life companies had reputations for stability and reliability. Never in all of their history did they fail to pay a dividend to policy holders, not even during the two great wars or the great depression. Once a dividend was declared it was never clawed back.**

**The companies were managed by professional insurance men and their products put together by well qualified actuaries. Reserves were created to make sure they would never fail and they would pay every legitimate claim.**

**The large companies had robust Agents Associations. Far from being agent centric or militant unions, agent associations elected the most experienced amongst them to represent them in negotiations with companies. They understood agent and client issues. The company listened. The insurance industry flourished not just in Australia but all over the world.**

**Roll on to the 1980s. Globalisation became a buzzword. Opportunists eyed the large financial reserves squirrelled away over generations by actuaries and retained for policy holders in statutory funds.**

**Demutualisation, where ownership of these assets passed form policy holders to shareholders saw a complete change in the 90s.**

**Insurance companies listed on the stock exchange. Now profits went to shareholders rather than policy holders. Hatchet men, (accountants and bankers) took over. Greed, where no matter the profit, it was never enough, replaced the 150 years of care and skill where profits were drip paid back as dividends or bonuses to policy holders.**

**As an industry known for conservatism and care, insurance was finished.**

**Small players were gobbled up by the large. For example, Friends Provident, Scottish Amicable, Legal and General, Prudential and others were all taken over by Colonial. Colonial was then sold to Commonwealth Bank. Last month CBA announced a profit of just short of 10 Billion dollars. Much of that has been driven from its insurance and wealth management divisions. Yet CBA has had to compensate consumers to the tune of hundreds of millions.**

**The same thing was happening to the others. MLC, Mercantile Mutual, City Mutual and ING to name but a few, all disappeared. While some names live on they do so as subsidiaries of banks. Where once there were 50 Insurance companies, now there are less than 10.**

**I was a recruiting and training manager for Prudential in the 1980s and 1990s. I was also on their Agents Association as Director for Queensland. When Colonial took over I was on their association. I was asked to speak at their conference in Dubai in 1998 as Colonials management tried to calm fears amongst agents that things would change for the worse. I knew then insurance had changed forever. And I knew agents and consumers would pay the price. I just did not how much. In my worst nightmares I could not have envisioned what this would lead to today.**

**I also knew the insurers, once under control of bankers would not pay.**

**Companies started a cost cutting that was savage. Experienced managers were retained just long enough to manage some of the amalgamation difficulties. But some knew too much or cared too much. Managers who understood consumer needs and knew benefits existed dormant in some policies seemed to be treated as a nuisance. Instead of a culture to pay claims, a new mood of denial took its place**

**Inevitably in the push for profits commission paid to agents came under fire. Agents ceased to represent insurers as the whole landscape changed. Regulation caused them to become known as advisers and they became disconnected from the insurers. Training by insurers stopped overnight. The conduct of advisers, was longer the concern of insurers. They created financial service companies called Licenced Securities Dealers.**

**Agents were transferred from being agents to being Authorised Representatives of dealers. Dealers did not manufacture products, but they became subsidiaries of insurers or banks nevertheless. Through legislation they must recommend only products on their dealer product list, whether best for the consumer or not. By full circle they became the sales organisations of the insurers who were no longer responsible for their conduct. A dream come true for insurers, yet the worst possible nightmare for agents now called advisers.**

**Trainers were fired. New training organisations sprung up who neither understood insurance nor understood insurance issues. Lapse rates, persistency, selection against the company, guaranteed future insurability, expressions that became a foreign language. Nondisclosure, pre-existing conditions, insurable interests, human life value concepts and the need for insurance throughout one’s life all became obsolete terms.**

**New young university graduates with no experience in life and less with money, were given short courses to make them compliant and off they went to give financial advice as if they were experts. Now apparently everyone has to be a graduate. Never have there been so many complaints and never has Australia been so underinsured. Companies that had recruited and trained agents for over 150 years stopped doing it.**

**These companies had set commission at levels required to retain agents. Now they wanted to slash them. They took away offices, phones and secretarial services. Advisers no longer employed by insurers were now a cost to cut instead of an asset to cultivate and nurture. The insurers of today join the cacophony screaming to a suspecting public that if life insurance is too complicated or too expensive it is the cost of commission that makes it so. That tickles the ears of those wanting something for nothing. But it’s not true.**

**Consumers have been duped and worse, a gutless politically controlled regulatory system cannot muster a defence for the industry it regulates and a gullible media has joined in. Instead it blames the adviser. The voice of reason has got lost in the noise.**

**During the transitions some half-hearted efforts had been made to stem a tide of opportunism and miss-selling of some policies to aboriginals that occurred in the late 80s and unsuitable income protection policies on work sites.**

**At the time I was seconded from my job as a Prudential manager in 1994 to assist the then regulator the ISC (Insurance and Superannuation Commission) under the direction of e genuinely knowledgeable commissioner and insurance man Bob Gladding. The task was to develop rules to govern agent conduct. The Code of Practice was introduced in 1995. This was a compulsory code that required agents to consider numerous consumer issues before recommending a policy or cancelling or changing one. On its own this would have stopped the practice of what we hear of today as churning.**

**Alas it was short lived as other forces were at work in the competitive level of regulators hierarchy as each vied to replace the other. In time through another process (CLERP 6) ASIC (Australian Securities and Investment Commission) took over the control entire financial industry. The higher echelons in those organisations appeared to me to be too busy carving out their own careers.**

**Consumers could wait.**

**What a mess ASIC has presided over.**

**I think back to 25 years ago. I can recall meeting with a prospect, sitting in his kitchen as 8 o’clock on a Monday night working out an insurance plan with him and his wife, that would work for him and his family if anything went wrong, at a cost they could manage. I would return the following Monday with some proposals.**

**Unknown to me, that prospect was seeing another agent from another company the following evening and yet a third the evening after that. All of us, unknown to each other were to return and present our proposal. Three weeks later the prospect had three options to consider. It was up to him to choose what he felt worked best for him. Or he was free to choose not at all. Only if he chose my solution would I get paid.**

**Finally he chooses one. The others had put the effort in for nothing. That is what competition in the insurance world was like. We all accepted that risk went with the job. Today the consumer takes all the risk. Adviser want paid whether they solve the problem or not. And the biggest risk of all is not the policy he buys- it’s the adviser he chooses.**

**When an adviser sits with a prospect on Monday evening (if he can still be bothered) he charges for his time. If he sees another adviser the following evening he will have to pay him too, and if he can afford to see a third he pays him also. All will charge no less than $1500. So whether he buys insurance or not the poor blighter is up for $4,500 before he starts.**

**He will be lucky if any of them are back within 6 weeks let alone next. They all have to prepare what is called a Statement Of Advice.(SoA) That takes many weeks to research and prepare. When the prospect finally gets the first SoA he will take hours reading it. Some run into 50 or more pages.**

**Product Disclosure Statements have to be provided for each policy recommended. These can run into a hundred pages. And he might have two or three. The prospect will have a document running into hundreds of pages. (Some advisers put these on computer discs otherwise it would consume two or more reams of paper)**

**When he gets the second and third proposal or SoA he will have thousands of pages to read or compare. He will just be overwhelmed. He has no chance of ever working out what is best for him.**

**Worse-The prospect has learned to trust none of us.**

**Various enquiries into financial services have hijacked the real issues and generally return to focus on how advisers are paid. Commission has come under the spotlight with little attention to the advice given. Failure to specifically identify what financial problem exists and what insurance product will solve it leads to wrong products solving wrong problems. This follows poor training and in my opinion these problems are directly caused by lack of insurance knowledge of advisers.**

**The profit making insurers are jumping on the band wagon in the rush to slash commission. They propose or support an idea to limit commission to 60% of first year’s premium and 20% of future years. How is it that in the 150 years when they had to recruit, train and retain their own agents, who they knew could hardly survive on twice that, even with additional office and secretary support, they now believe they can? The truth is they know it’s impossible. They just no longer care nor are they responsible.**

**They know it impossible. So they want the adviser will charge the consumer. Whether advisers charge a fee of $1500 for time, or charge a plan fee of $1500 or charge a commission of 60%, or do all of that, it’s no longer the insurer’s problem. They will do what they have to. They good ones will survive and prosper and the lesser ones will fall by the way side. Retention does not concern insurers.**

**Some consumers believe they can buy cheap insurance without help or advice. I have watched direct insurance marketed through massive television advertising campaigns. Notice how often the enquirer in the advert states she is “2 years old and a non-smoker”. These details are not random. A 32 year old non-smoking, fit woman is the least likely person to die in any year. Her premium will be the cheapest. One advert says “get up to 1 million dollars cover today without medicals or blood tests” And sure enough, a policy arrives in the mail within a week.**

**To my mind its like packing a parachute bag without checking there is a parachute inside. Best of luck.**

**Cheap has never been best in cars or carpets, why would it be best in insurance? I believe the direct insurance market is the next consumer catastrophe waiting to happen. Insurers will say that consumers failed to reveal their medical, work or pastime history accurately. Already it is a process plagued by denied claims.**

**Clients who have bought policies without advice, have often cancelled ones they bought with advice. They are now sitting on a time bomb, not knowing if they are insured or not. At claim time they will have no adviser working for them. Lawyers know there is a latent fortune just waiting for a trigger. Hence lawyer advertising is nearly on a par with those of insurers.**

**Is there a solution? Can consumers choose how they want to pay for advice? Can those who are able to or want to and can afford a direct fee, pay it instead of commission? And can those who can’t pay a direct fee, pay for advice through the commission they authorise? I believe they all can.**

**I believe that insurance advice should be readily available and all consumers should be able to choose how they pay for it.**

**I have spent nearly 50 years working on solutions which work. Like all problems this one is real and demands a real solution that works.**

**I believe that insurance companies should have to quote premiums based on a zero commission first. Then if consumers want to pay for advice through commission they should be able to do so. They would follow the process outlined below.**

* **First Insurance premiums could be quoted on a zero commission. (That would represent the true cost of insurance)**
* **Next every consumer should be given a choice-either pay for advice directly by way of fee invoiced by the adviser or pay by some other means.**
* **Consumers who wish could pay by commission by choosing to pay by commission, (payment of fee by instalment )**
* **The consumer would agree with his adviser of what level of commission he needs to pay.**
* **How that relates to the premium is not even relevant although once commission is dialled in the consumer would see how commission alters a premium.**
* **If a consumer instructs an insurer to pay this up front, (effectively getting a loan from the insurer) over one, two or three years (the higher premium effectively being a combination of premium for the policy plus instalments to pay fees) At present it is the adviser who gets the “loan”. If the consumer stops paying the premium it is the adviser who has to pay back. The adviser still gave of his time and still gave advice.**
* **If the consumer wants to pay for yearly ongoing advice and reviews he can do this too by direct fee or by commission.**
* **Consumers could choose to pay all by direct fee, all by commission or a mix of both. It is not too difficult to introduce although there will be those who say it is.**

**What difference does it make to insurers how a consumer pays? It would be entirely up to consumers to choose. But at least they would have access to advice. They would buy the right policy matched to the right problem. They would get advice about whether life insurance is better in super or not. When one reads newspaper columns about insurance one would think only group schemes in super work. Some say this is cheaper. Have we not been through that?**

**Advice would teach would learn that a tax deduction where he might get back 15% of the premium amounting to just a few hundred dollars, is a big price to pay when at death his estate night have to pay many thousands in tax because of his will**

**Consumers desperately need advice. ASIC is pushing for a user pays- but then interferes with the payment. The Australian government, through its regulator (ASIC), has destroyed confidence in insurance as a solution to financial setbacks that happen to every family and business, and has belittled the value of advice, and damaged an industry that has survived for over 150 years. While I place all of the blame on the regulator the government should**

**Whatever the final solution, insurance has changed forever.**

**Oh What a Mess.**