

FAQ - The value of an insurance broker / consultant's advice to superannuation funds



1. Can I rely on my fund's insurer to provide independent advice, strategies and guidance on market trends?

The short answer is No. An individual insurer will only provide advice that is limited and consistent with their own product range, their own attitude to risk management and their own view of the market.

2. Why should I pay a fee for an insurance broker or consultant when my fund's insurer offers this service at no cost?

An insurer may offer to provide certain services but these services will be limited to the extent to which they meet the insurer's own commercial objectives, risk management attitude and risk appetite.

An insurer is unlikely to commission a report on what the full market is prepared to offer a fund as this is likely to raise some deficiencies. An insurance broker/consultant, on the other hand, offers the fund independence and knowledge of the whole market and all products. This is an important element to consider given the insurance market for funds is a highly specialised and tailored market.

An insurance broker's/consultant's fee for services rendered relative to the annual premium paid by a fund is modestly low. Generally, in a tender situation a professional insurance broker can secure a straight up discount of between 1% to 2% of the premium by presenting a detailed risk profile of the fund. This up front discount will generally meet the costs of a medium sized fund engaging a consultant (at least partly, if not entirely).

3. Do superannuation funds and insurers have common goals and objectives at all times?

The short answer is No. A fund has a duty to its members, whereas an insurer is focused on ensuring their portfolio of business meets their shareholder requirements. Adopting a tight and prudent risk management focus is a key priority for insurers. Their interests and those of a fund are therefore not always aligned. Disputes can and often arise as a result of differing interests.

4. Should the provider of the insurance strategy, market or product advice be licensed?

Yes, we believe they should. As a minimum, the provider of that advice should be adequately licensed (AFSL) to arrange, deal and advise on insurance products and hold adequate Professional Indemnity Insurance in respect of the advice provided.

They should also possess sufficient resources, have the required expertise in the insurance market and a track record in securing insurance outcomes for superannuation funds.

Failure to hold the appropriate class of AFSL and adequate Professional Indemnity Insurance may result in the fund taking on additional exposure and commercial risk.

5. What are the main differences between insurance brokers and consultants?

Some insurance brokers and consultants specialise in certain segments of the market eg. General Insurance, corporate employee benefit or the retail insurance market.

Superannuation is a highly specialised and complex segment of the financial services industry. It is a highly regulated market which impacts directly on the design and delivery of insurance. It is important to engage an insurance broker/consultant who understands SIS, the role of the SCT and APRA, the regulatory and risk management framework, products and services provided to members and the nature of the relationship of the fund with its service providers.

IFS Insurance Broking (IFSIB) specialises in the superannuation market and understands funds' key activities, products and services, risk profile, inter-relationships with service providers and how insurance is managed and distributed to their members. This insight brings the capacity for tailored solutions consistent with a fund's business, compliance and risk management objectives.

6. Insurance is all about negotiating a competitive premium so why can't I just go to an actuary?

In our opinion, premium is always an important consideration but, *what type of insurance is the fund getting for the premium paid?*

An insurance broker/consultant will provide a diagnostic on the competitiveness of the premium, and will also compare terms and conditions, review policy wordings, re-engineer and consider the scope to improve your service, benchmark your fund against others and provide a comprehensive health check.

An insurance contract is made up of many parts which, if not adequately structured, can tie up significant fund resources. Ultimately, the role of an insurance broker/consultant is to ensure the insurance products are distributed to members efficiently. This can be done by focusing on the member experience and strengthening the fund's compliance and risk management systems.

7. How do insurance brokers and consultants engage with the market?

An insurance broker/consultant should enjoy a good working relationship with all insurers. This will extend to reviewing information on their products, premium competitiveness, service offer, standard terms and conditions, IT solutions, financial strength and attitude to the tailoring of coverage. This information is updated and constantly benchmarked to assist funds in getting the best possible advice and results.

However, the nature of the relationship should never be anything other than professional. A professional insurance broker/consultant will always seek to manage these relationships to ensure no conflicts of interest arise. Independence guarantees the best outcome for funds and a level playing field for the insurance market. Ask your broker/consultant where their client's business is placed to see if such independence is practiced.

8. Does an insurance broker or consultant act for my fund?

An insurance broker/consultant has a legal duty to its client. For IFSIB, the client is always the fund and not the insurer in any transaction we are involved in.

The advice, services and strategies we provide will always be consistent with the fund's needs and requirements and never the insurer's interests. This includes and extends to advice on claim disputes, contracts of insurance, product design, service capacity, profit sharing arrangements, and so on.

9. Why should my fund use an insurance broker or consultant?

By using an insurance broker/consultant, you engage a specialist who can save you time and money and give your fund the 'peace of mind' to make informed decisions.

It's also more time efficient for your fund as it alleviates the need to deal directly with a number of insurance companies. It should be noted that dealing directly with insurers may lead to compliance and risk management issues in the event of a legal dispute with the insurer arising over a contractual arrangement. The question that needs to be asked is who advocates for the fund's interests? The insurer?

Insurance is a complex and an ever evolving market.

An insurance broker/consultant is your insurance partner who can analyse your fund's situation and provide a tailored plan to meet your fund's needs and help you in the event of a dispute.

10. What is the main strategic benefit of using an insurance broker or consultant?

Using an insurance broker/consultant gives your fund access to economies of scale and access to an intellectual property pool which in turn provides the fund with significant leverage.



About IFSIB

IFSIB was established in 1995 by Industry Fund Services (IFS) to provide a range of value-added, strategic insurance related services to industry super funds and associated network entities. Specifically, we were created by funds to provide:

- Strategic and forward thinking insurance strategies and services
- Insurance programs that are firmly aligned with the needs and requirements of the fund's objectives and exposures
- Tender management services to ensure the ongoing relevancy and currency of the client's program
- Insurance product and service development to reflect changing market conditions and/or emerging risks
- Ancillary insurance products to the fund, their members and associated entities

IFSIB focuses its activities on key areas of competency and expertise, which include the provision of strategic advice and services in the following areas:

- Group Risk (Life, Disability & Income Protection Insurance)
- Trustees' Liability, Professional Indemnity and Directors' & Officers' Insurance
- General and Commercial Insurance
- Mergers & Acquisitions

We remain the only insurance consultant with the specific focus of making a difference for industry fund clients. We hold the appropriate license, Professional Indemnity Insurance and relationships to provide the required breadth and level of services sought by industry super network clients.

IFSIB brokers and consultants provide funds with the professional advice and expertise they need to negotiate the most appropriate insurance covers for their fund's needs.

Our primary role is to look after your fund's interests in all matters relating to insurance and risk management.

Although we have cemented strong relationships with the major insurance companies in Australia, we do not work for them.

We work solely for our clients and always advocate their interests.

For more information please call: **03 9923 7171**
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