Own Motion Inquiry Report

Premium Funding

Inquiry into whether and how Code subscribers use premium funding contracts, how the premium funding contract is explained to the client and the processes in place for dealing with clients in financial difficulty.

June 2021

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Executive summary

The release of the final report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the Royal Commission) in 2019 shook the whole of the financial services sector. Although not many of the recommendations in the final report focused on or were specifically directed at insurance brokers, the Committee was nonetheless prompted to examine how subscribers are adhering to both the letter and the spirit of the Insurance Brokers Code of Practice (the Code) and its service standards.

In this Own Motion Inquiry report, the Committee investigates to what extent subscribers use premium funding contracts, how they present these contracts to clients and what processes they have in place for dealing with clients in financial difficulty. This arose from concerns expressed by the Royal Commission about how the financial services sector deals with vulnerable clients.

Premium funding is a useful mechanism for clients, especially small businesses, allowing them to easily manage their insurance payments by spreading these into monthly instalments made during the period of the insurance contract. As premium funding is provided by a separate entity and involves a contract directly between the client and the premium funder, the Committee wanted to investigate how brokers facilitate the provision of premium funding to clients and how brokers identify and respond when their clients have difficulty making premium funding instalment payments.

The Committee's findings

The findings are taken from the 2019 Annual Compliance Statement (ACS) in conjunction with follow-up discussions with 31 subscribers via telephone as part of the Data Verification Program (DVP). Desktop research of premium funding companies' websites was also conducted to determine whether they publish financial hardship policies.

Most subscribers offer premium funding

Premium funding is offered by 95% of Code subscribers, including all the largest broking firms and at least 90% of all other sized broking firms. Most use external premium funding providers whilst a small number operate an in-house premium funding facility linked to the main business.

Around one-third of subscribers that offer premium funding have contracts in place for up to 5% of their retail portfolio. Most of the remaining subscribers have contracts in place for between 6% and 50% of their retail portfolio, with a handful having premium funding contracts in place for more than 50% of their retail portfolio.

Complaints about premium funding accounted for just 2.3% of all complaints in 2019.

Premium funding and financial hardship training

Service Standard 8 of the Code requires subscribers to ensure that their staff and authorised representatives are competent, adequately trained, and their performance appropriately assessed and monitored. This includes the training and monitoring of staff and authorised representatives who arrange premium funding contracts for clients.

Around 70% of subscribers reported that their staff and authorised representatives receive training to ensure they can competently arrange premium funding contracts for clients. For around two-thirds of subscribers, training is provided by the premium funder. For 13% of subscribers, no premium funding training is given to their brokers, mainly because they do not provide premium funding in-house.

The Committee expects all subscribers – whether they directly provide premium funding or refer clients to a third-party provider – to enhance their training around premium funding so that staff have a good knowledge of the premium funding product and are aware of their obligation to ensure clients understand the terms and conditions of the premium funding contract, including that the premium funding contract is separate to the insurance contract.

While most subscribers provide some level of training to help brokers identify and respond to clients experiencing financial difficulty, one-third provide no training at all of this nature. For the subscribers that do train their staff in financial hardship issues, very few appear to provide formal, specialised training. Most is conducted 'on the job' via conversations with either the premium funder or the client.

Providing information to clients

Under Service Standard 5 of the Code, when clients enquire about, buy or renew an insurance product, subscribers are required to communicate with them clearly and promptly and provide them with advice that is appropriate to their needs. This includes explaining the terms of the insurance about which the advice is being provided; and taking all reasonable steps to promptly provide the client with requested copies of any relevant insurance documentation that the subscriber receives.

When it comes to providing clients with information about the premium funding contract, 69% of subscribers do so when they issue their invoice or when the insurance contract is renewed. Most subscribers email clients the terms and conditions of the contract and/or provide them with a link to the premium funder's website. 47% of subscribers have not provided details about how they communicate this information to clients.

The Committee would like to see more subscribers adopt information delivery practices that ensure the client understands that they are entering into a third-party arrangement with the premium funding provider when they purchase or renew a premium funding contract. This demonstrates that the relationship between the premium funder and the insurance broker is independent and ensures compliance with Service Standard 5 of the Code.

Responding to clients in financial difficulty

Only 50% of subscribers said they have a process in place for responding to clients in financial difficulty and some refer 'at risk' clients to the premium funder rather than offer direct assistance or advocacy. Most subscribers appear to be relying on the premium funding provider to let them know when a client may be experiencing financial difficulty. The Committee acknowledges that clients in financial difficulty may be reluctant to raise their financial difficulties with their broker.

More positively, the Committee was pleased to see that almost all subscribers stated they have good lines of communication with their premium funding providers, enabling subscribers to negotiate on the client's behalf to avoid the premium funder cancelling the policy if the client defaults on their repayments.

As insurance brokers manage the relationship with both the premium funder and the client, they are in a good position to act as an intermediary between both parties when instances of financial difficulty arise.

Monitoring the treatment of clients experiencing financial difficulty

The Committee received some informative responses from subscribers explaining how they monitor their compliance with the key commitment in Service Standard 5 of the Code – to act fairly, reasonably and in a consistent and ethical manner – when they are dealing with clients experiencing financial difficulty.

Over a third of subscribers conduct ongoing monitoring of the treatment of financially vulnerable clients, using activities including file audits, breach reporting and reviews of complaints and client feedback. Some subscribers have a dedicated team to monitor and respond to clients in financial difficulty, while others rely on monitoring carried out by the premium funder. Approximately 10% of subscribers stated they have no monitoring processes in place.

Even if a subscriber has not had any clients fall into financial difficulty, the Committee is of the view that they should have processes in place to respond appropriately should this occur in the future.

Recommendations

The Committee has used the findings from the Inquiry to prepare several recommendations to help Code subscribers improve their:

- premium funding and financial hardship training programs
- processes for ensuring clients are fully informed about premium funding contracts
- processes and procedures for identifying, responding to and monitoring clients experiencing financial difficulty.

These recommendations are listed below. They are also included at relevant locations throughout the report, along with good-practice case studies to further guide subscribers' compliance with the relevant Code standards.

Training

- Ensure there is appropriate training in place for your staff to comply with Service Standard 8 of the Code, regardless of whether you provide premium funding.
- Ensure that training is versatile and suits the needs of your brokers.
- Deliver training regularly so that existing and new staff have up-to-date information on premium funding arrangements.
- Implement specific training to help staff identify financial difficulty triggers and support this with policy and procedures.
- Take proactive steps to identify clients at risk of or experiencing financial difficulties.
- Work with clients to understand their individual needs.

Providing information to clients

- Make it clear to clients they are entering into a third-party arrangement with a premium funder.
- Make sure the client understands the premium funding arrangement, including the risk of policy cancellation if payments are missed.
- Make sure the client understands who has authority to cancel the insurance policies.
- Provide information to clients in a clear and simplified manner.

- Explain premium funding to the client. It should <u>not</u> be included on a renewal invoice without the client understanding what it means.
- Continue being flexible in delivering premium funding contract terms to clients. Some may prefer paper copies to an online link.
- Ensure clients clearly understand that their insurance policies are the security for the loan and if the client defaults on a payment, then the premium funder is within their rights under the contract to instruct the broker to cancel the insurance policies.

Responding to clients in financial difficulty

- Keep informed of the premium funder's financial hardship policies/processes, specifically when the premium funder is relied upon to support a client experiencing financial difficulty.
- Obtain clear guidance notes or a documented process from the premium funder.
- Ensure the client understands their obligations to the premium funder and should financial difficulties arise work together to find solutions so that all parties are appropriately informed.
- Make it easy for clients to obtain information about financial difficulty.
- Continue considering ways of encouraging dialogue with premium funders to proactively address financial difficulty.
- Familiarise yourself with the new AFIA Insurance Premium Funding Code of Practice and any sections regarding financial difficulty when it comes into effect, so you can direct clients to relevant information.
- If you don't have a formal arrangement with the premium funder, document conversations with both the premium funder and the client and keep detailed notes.
- Regardless of whether a case for financial difficulty is established, it is important for the broker-client relationship that there is discussion and opportunity to explore potential options to support a client.
- If there is no alternative to cancelling an insurance policy, ensure that the client is aware of this situation and its effective date.
- Maintain an open dialogue with the premium funder and the client and seek swift resolution from the outset.
- Promote behaviours within your organisation whereby staff act fairly and with empathy towards clients, putting their best interests first in any discussion with the premium funder about the status of the policy. Encourage staff to see cancelling the policy as a last resort once all other options have been exhausted.

Monitoring the treatment of clients experiencing financial difficulty

- Implement training to assist clients who are experiencing financial difficulty.
- Have robust compliance monitoring activities in place to comply with the Code and effectively assist clients in financial difficulty.
- Assisting clients should be front of mind in all interactions – as the broker, what can you do to help this client?
- Use information such as complaints data to assess if there are any gaps in training or process that can be improved upon.

Introduction

What is premium funding?

Premium funding allows businesses to pay their insurance premiums in easy-to-manage monthly instalments. It is a flexible and convenient alternative to paying large, upfront insurance premiums, freeing cash flow for use elsewhere in the business. Premium funding is utilised by businesses of all sizes and is particularly valuable to small and medium sized businesses – a focus market for insurance brokers.

Under the premium funding model, the premium funding company pays the full insurance premium to the insurance broker, who then pays the nominated insurer on the client's behalf. The client then pays the premium funding company in monthly instalments, which include a flat interest rate that is fixed for the term of the loan. The insurance policies which have been premium funded provide the security for the loan, so there are no additional security costs for the client. Brokers receive a commission from the premium funder for selling the service. Some brokers provide premium funding to clients utilising their own capital resources.

Premium funding can be extended to most types of commercial and domestic insurance policies, including Workers Compensation policies.

Rates of interest and commissions earnt for premium funding arrangements

As part of this inquiry, the Committee sought to understand the average rate of interest that the premium funder charges the client, and the average amount of commission the broker earns from the premium funder. To do this, we contacted two premium funding companies via a shadow shopping exercise and held discussions with several Code subscribers.

The amount of interest charged to the client varies from funder to funder. According to the premium funders and the Code subscribers we spoke to, the rate of interest depends on the size of the premium, the length of the loan, the type of product involved and whether the loan can be cancelled. Interest rates typically vary from 7% to 10%, with larger premium funding loans likely to incur lower rates of interest (usually between 2% and 5%).

The amount of commission brokers receive from premium funders also depends on the size of the premium and the type of product involved but can vary substantially. At one end of the spectrum, some brokers receive an average commission of 40%, while at the other end, brokers earn a commission of around 0.5% to 3%, particularly for higher premiums.

Benefits of premium funding

Premium funding offers a number of benefits to the client, including:

- flexible monthly instalments
- multiple payment methods, including direct debit and credit card
- the ability to pay multiple insurance policies in one monthly payment
- interest repayments may be tax deductible
- cash flow is freed for use in the business.

Premium funding contracts are separate to insurance contracts

The premium funding contract is between the client and the premium funding company and is separate to the insurance contract. The insurance broker acts as an intermediary to facilitate the premium funding contract, allowing the client to fund one, several or all policies together.

What is financial hardship?

Clients experience financial hardship when they have difficulty or are unable to make the repayments on their loans and debts when they are due. There are two main reasons for financial hardship:

- Although the client could afford the loan when they took it out, their circumstances have since changed; or
- The client could not afford to repay the loan when they took it out. *Clients in this category should be advised to seek legal advice immediately.*

Clients who fall into the first category have certain rights if the loan is covered by consumer credit laws. For those clients who have a credit card, personal loan, car loan or home loan, the consumer credit law applies if the loan was taken out for predominantly personal purposes.[1] Even if the consumer credit law does not apply, clients can – and should – use financial hardship to try and negotiate a repayment arrangement.

Schedule 1 of the *National Consumer Credit Protection Act 2009* specifically addresses financial hardship, as do sections 72–75 of the National Credit Code. Since 1 July 2010, all requests for hardship fall under the National Credit Code, even if the contract was entered into before that date.

Section 72 of the National Credit Code covers the circumstances where clients can request a repayment arrangement on the grounds of financial hardship (a hardship variation).

The client must be having (or will have) trouble making their loan repayments due to reasonable cause (for example illness, family breakdown or unemployment). This is a wide definition.

The Own Motion Inquiry

The aim of the Own Motion Inquiry is to establish whether and how Code subscribers provide premium funding, how their staff are trained to arrange premium funding, and what processes they have in place to ensure that this service is useful, reliable and of value to clients – particularly vulnerable clients, such as those who may be victims of family violence or economic abuse and those experiencing financial difficulty.

The inquiry was based on the information provided by 260 Code subscribers in the 2019 Annual Compliance Statement (ACS), followed by a Data Verification Program (DVP). As part of the 2019 ACS, all Code subscribers were required to provide written answers to questions about:

- the extent to which they use premium funding contracts

[1] The predominant purpose test for whether a loan is for business purposes (and thus consumer protections do not apply) or for personal purposes has been temporarily changed by the Federal Government. The Government amended the National Consumer Credit Regulations 2010 during the COVID-19 pandemic to temporarily change the predominant purpose test for loans that are partially for a small business purpose. Under reg 28RB, lenders are currently exempted from responsible lending obligations for any form of credit that is to be used in any part (as opposed to predominantly) for a genuine small business purpose, if purpose is not minor or incidental to the overall purpose of the credit.

- how they explain the premium funding contract to their clients
- the processes they have in place for dealing with clients in financial difficulty.

The full questionnaire and a summary of responses are in **Appendices 1** and **2**.

Additional information was gathered during telephone conferences held with 31 Code subscribers. The telephone conferences were undertaken as part of the DVP to obtain more specific details about complaints, breaches, training, procedures, processes and reporting.

The Committee also carried out desktop research of premium funding companies' websites to find out if they publish financial hardship policies.

The Code obligations

In addition to their obligations under the Insurance Brokers Code of Practice, Code subscribers should also be aware of applicable sections of the Banking Code of Practice and the General Insurance Code of Practice, as outlined below.

Insurance Brokers Code of Practice

The Insurance Brokers Code of Practice (the Code) does not specifically address vulnerable clients or financial hardship. It does, however, contain applicable standards relating to the sale of insurance generally, including the expectation that subscribers will act in their clients' best interests by identifying their financial situation before arranging to buy insurance services on their behalf, and that subscribers will ensure their staff and authorised representatives are trained and monitored to provide clients with relevant services.

Service Standard 5

When providing Covered Services on your behalf we will exercise reasonable care and skill, including communicating with you in a clear and prompt manner.

When you are buying insurance and we act on your behalf, we will do the following (unless we agree with you or tell you otherwise):

- when we provide you with a Personal Advisory Service in relation to the insurance we will:
  - act in your best interests by:
    - identifying your objectives, *financial situation* and needs as disclosed to us by you through your instructions; …
    - identifying your objectives, *financial situation* and needs that would reasonably be considered as relevant to advice sought on that subject matter (Relevant Circumstances); and …
- promptly advise you if your policy coverage is accepted, declined, cancelled or lapsed or has had additional special terms applied to you.

Service Standard 8

We will ensure that we and our representatives are competent and adequately trained to provide the relevant services and will maintain this competence.

General Insurance Code of Practice 2020

Brokers who provide services on behalf of general insurers that subscribe to the new 2020 General Insurance Code of Practice (**2020 GI Code**) must also comply with various standards under that Code in particular circumstances.

In addition to a new section on vulnerability and specific provisions for vulnerable clients, the 2020 GI Code includes strengthened financial hardship provisions:

- ***Vulnerability***: Since 1 July 2020, subscribers to the 2020 GI Code have been required to have in place a policy to support customers experiencing **family violence**. They must also train appropriate employees to identify if a client may be vulnerable. The 2020 GI Code also includes specific provisions regarding **mental health** (**Part 9**).
- ***Enhanced financial hardship provisions***: Employees and agents involved in debt collection are now required to be trained on the Financial Hardship requirements of the 2020 GI Code (**Part 10**).

As of 1 January 2021, subscribers to the 2020 GI Code must be fully compliant with Parts 9 and 10. The remainder of the 2020 GI Code will apply from 1 July 2021 (unless adopted earlier).

Banking Code of Practice

Sections of the Banking Code of Practice that insurance brokers should be aware of include the following:

- Part 4 ***Inclusive and accessible lending***: Chapter 14 'Taking extra care with customers who are experiencing vulnerability'
- Part 9 ***When things go wrong***:
    - Chapter 39 'Contact us if you are experiencing financial difficulty'
    - Chapter 40 'We may contact you if you are experiencing financial difficulty'
    - Chapter 41 'We will try to help you if you are experiencing financial difficulty'.

Premium Funding Code (IPF Code)

At the time this report was published, the IPF Code had not yet been released. The Committee has met with the Australian Finance Industry Association (AFIA) to discuss the draft **Premium Funding Code** and we can advise it will only apply to premium funders. Insurance brokers are covered by the Insurance Brokers Code of Practice.

The draft Code proposes the following regarding the Insurance Brokers Code: "*We will also ensure that our arrangements with our Intermediaries comply with the disclosure obligations within the Insurance Brokers Code of Practice as amended from time to time.*"[2]

AFIA aims to have the Premium Funding Code operating by July 2021.

[2] Draft IPF Code, Clause 5.4, page 8.

Code subscribers and premium funding

Data from the 2019 ACS reveals that the majority of Code subscribers (95%) offer premium funding. All subscribers in Categories A and B offer premium funding (the largest broking firms), while 91% of Category C subscribers, 96% of Category D subscribers and 95% of Category E subscribers offer premium funding.[3]

Most Code subscribers use external premium funding providers, with the main providers being IQumulate (used by over one-third of Code subscribers) and Hunter, Elantis, BOQ, Attvest and Macquarie Premium Funding (used by about a quarter of Code subscribers) (see **Table 5**).

A small number of subscribers (25) operate an in-house premium funding facility linked to the main company by ownership or shareholding arrangements.

For the 2019 period, 82 Code subscribers (equivalent to around one-third of all subscribers that offer premium funding) advised they have premium funding contracts in place for up to 5% of their retail portfolio. Another 33 subscribers have contracts in place for up to 10% of their retail portfolio, 46 up to 20%, 36 up to 30% and 28 up to 50%.

Only four Code subscribers stated that they have over 50% of their retail portfolio with premium funding contracts in place (see **Table 7**). These four are all Category E subscribers.

Premium funding was not a major issue in client complaints in 2019. Between them, 21 Code subscribers self-reported a total of 30 complaints involving premium funding – equivalent to 2.3% of all complaints for the reporting period (see **Table 2**).

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[3] For the 2019 ACS, Code subscribers were divided into five categories of business size, based on the number of full-time equivalent (FTE) staff:

- Category A – more than 100 FTE staff
- Category B – 51–100 FTE staff
- Category C – 31–50 FTE staff
- Category D – 21–30 FTE staff
- Category E – 0–20 FTE staff

Training

Under Service Standard 8 of the Code, subscribers are required to ensure that their staff and authorised representatives are competent and adequately trained, and their performance appropriately assessed and monitored. This includes training and monitoring staff and authorised representatives who arrange premium funding contracts for clients.

In the ACS Questionnaire, Code subscribers were asked to describe:

- the nature of the education and training employees and/or authorised representatives are required to receive before they can arrange premium funding contracts to ensure that the client is made fully aware that they are entering into a separate contract to the insurance contract; and
- how their organisation ensures that employees and/or authorised representatives are trained to identify triggers from their conversations with clients to identify clients who may be experiencing financial difficulty.

Almost 70% of respondents said they have procedures in place for training and monitoring staff and authorised representatives to arrange premium funding contracts for clients. Around two-thirds of these subscribers rely on the premium funder to provide the training, while the remaining one-third provide the training themselves. Thirteen per cent of respondents said they do not provide any training for their brokers on the arrangement of premium funding contracts.

Most respondents provide some level of training to identify and respond to clients experiencing financial difficulty – although 33% reported that they do not.

A number of brokers have dedicated premium funding staff, often with experience working in the banking or finance industries.

More detail on Code subscribers' responses to training around premium funding and financial difficulty is provided below.

Training provided by Code subscribers

Twenty-five per cent of Code subscribers provide their brokers with training on how to arrange premium funding contracts for clients. Some do this via in-house training programs.

One Category A subscriber trains its brokers on premium funding and makes them aware it involves a separate contract. Brokers are also trained on financial hardship, how to identify 'at risk' clients, and what to do in the event of non-payment of premium funding.

This subscriber has created a broking procedures manual, which includes information about premium funding, how it is written, conditions, fees and interest. The manual directs brokers to advise the client that premium funding is an alternative to paying one lump sum, and that it is a convenient method of paying insurance premiums by instalments. This subscriber generally hires brokers with previous insurance experience.

Another Category A subscriber (for which premium funding accounts for 5% of its portfolio) provides ongoing online guidance and training tips to help staff understand what triggers financial difficulty.

A third Category A subscriber requires its authorised representatives to undergo induction training when joining the organisation. Authorised representatives are also required to regularly review the compliance manual, which specifically outlines premium funding considerations.

One Category E subscriber's internal training material advises staff not to recommend, sell or encourage clients to enter into a premium funding contract. This subscriber's staff also receive training from premium funding companies, which includes information on how the funding loan works.

Good practice example

One Category C subscriber has a separate finance team that is trained to offer premium funding. The team produces all funding quotes and offers for clients. It is not linked to the broking team and is independent of the placement of any of the client's policies.

Training provided by the premium funder

Just under half (45%) of all Code subscribers that offer premium funding use the premium funder for both induction training (when the broker joins the firm) and annual training. Training provided by the premium funder involves advising brokers on how to help clients apply for premium funding, as well as educating them about the available products. The training generally includes:

- how premium funding is offered to clients
- how it works
- how payments are made
- the system the premium funder uses
- the rights of funding companies to cancel policies due to non-payment
- the premium funder's cancellation policy.

Training is conducted both online and in person. The premium funder may come to the broker's office for face-to-face training and will also offer online resources. Brokers receive training annually.

One Category B subscriber advised that, in addition to its staff attending three formal training sessions with the premium funder, the premium funder also visits the subscriber once a month to provide ad hoc training and advice to brokers.

Another Category B subscriber also receives regular visits from the premium funder to discuss funding contracts and arrangements with staff, and to ensure the client is made aware that premium funding involves a separate finance contract.

A Category C subscriber reported having each funder deliver training to its brokers via an online portal, with users having individual logins.

The Committee reminds subscribers whose staff are trained by the premium funder that they are still required under Service Standard 8 of the Code to measure the effectiveness of that training by monitoring the performance of their staff. Furthermore, they are required to ensure records of staff training are kept for at least five years and can be produced upon request by the Committee or the Code Administrator.

No training provided

Thirteen per cent of Code subscribers do not provide training on the arrangement of premium funding contracts to their brokers. In explanation, these subscribers said that they have small teams of brokers and do not provide premium funding in-house.

One Category B subscriber explained that it was not necessary to provide premium funding training to its brokers, as all premium funding contracts are arranged by a single account manager who has a finance background and also holds broking qualifications.

A Category C subscriber provides premium funding via an automated system that does not require staff input. If premium funding is arranged manually, it is done by an experienced account manager who understands how to explain interest and the burden of failing to pay instalments to the client. Another Category C subscriber reported that it had no formal training in place.

In the case of one Category A subscriber, which does not provide premium funding in-house, clients are informed that premium funding is an option and then referred to an external provider.

Service Standard 8 and the Committee's expectations around training

Where a subscriber does not directly provide premium funding (i.e. they refer it to a third party), the Committee expects the subscriber to ensure its staff:

- *have knowledge of the premium funding product*
- *make the client aware of the terms and conditions*
- *specify the premium funding contract is separate to the insurance contract.*

Service Standard 8 requires subscribers to ensure that their staff are competent and adequately trained to provide the relevant services.

Training to identify financial difficulty

Most Code subscribers provide some level of training to help their brokers identify and respond to clients experiencing financial difficulty.

For 10% of subscribers, this involves 'on the job' training. One Category C subscriber trains staff on telephone techniques and keeping records of discussions for feedback purposes. Ad hoc training also takes place through general conversations with premium funders particularly when clients miss payments.

Some subscribers rely on senior staff as an escalation point, with one Category E subscriber noting that they have staff with over 35 years of industry experience who can identify financially vulnerable clients. Other subscribers have designated staff responsible for reviewing premiums. Ten respondents (4%) reported sharing information in team meetings, with topics for discussion including client hardship and the reasons for it, as well as more general issues. Premium funders' reports, which may include an arrears report, are also examined in team meetings.

Around 15% of subscribers said they rely on interactions with their clients as a means for identifying financial difficulty. This occurs through conversations with clients, looking out for unusual client activity, and taking what some subscribers described as ‘a common-sense approach’.

Only 5% of subscribers monitor client defaults, with staff trained to understand that defaulting on a payment can be an indicator of financial difficulty. Defaults can be identified by default emails from the premium funder or checking for missed instalments or dishonour payments.

Good practice example

Brokers at one Category C organisation discuss current and projected turnover with clients so they can understand their financial situation.

During the COVID-19 pandemic, brokers started having more in-depth conversations with clients about their ability to pay their insurance premiums.

Only 8% of subscribers keep in touch with clients specifically regarding premium funding payments and proactively call any clients who have missed instalments. They also contact clients to find out if they need assistance, consider each client’s circumstances and find the best options for them. One Category E subscriber reported having open conversations with clients, asking about their business performance and their preferred payment option.

One-third (33%) of Code subscribers that offer premium funding said they do not provide their staff with training to identify and respond to clients experiencing financial difficulty. These subscribers explained that they do not consider it necessary to provide such training, either because they have not had any clients request financial difficulty assistance, or their relationship with their clients is such that brokers can identify issues and address them on an as-needs basis.

One Category E subscriber that does not provide financial difficulty training to its brokers advised that it would not provide premium funding to a client in financial difficulty. In this instance, it seems the subscriber does not understand that financial difficulty can occur after the initial engagement with the client.

Some subscribers said they rely on the premium funding provider to assist clients who are experiencing financial difficulty and are guided by the premium funder’s directions.

Concerningly, some subscribers indicated that they rely on the client to inform them of any financial difficulties. One Category E subscriber stated that they expect the client to recognise when they are in financial difficulty and advise the subscriber of their circumstances.

Although the Code does not specifically address vulnerable clients or financial hardship, it does, contain applicable standards relating to the sale of insurance generally, including the expectation that subscribers will act in their clients’ best interests by identifying their financial situation before arranging to buy insurance services on their behalf (Service Standard 5), and that subscribers will ensure their staff and authorised representatives are trained and monitored to provide clients with relevant services (Service Standard 8).

In recent times, we have seen businesses of all sizes suffer financially due to the COVID-19 pandemic and, in some cases, extreme weather events such as bushfires and flooding. With the pandemic continuing to have an impact and extreme weather events set to continue, more challenges will lie ahead for Australian businesses, and financial difficulty will be an ongoing issue to which the industry must respond.

It is important that brokers recognise and understand when any of their clients – not just those who have a premium funding arrangement – are suffering (or at risk of suffering) financial hardship and to assist where they can. The Committee strongly encourages all subscribers to introduce formal, specialised training to help their staff identify clients in this situation and respond appropriately.

Recommendations

- Ensure there is appropriate training in place for your staff to comply with Service Standard 8 of the Code, regardless of whether you provide premium funding.
- Ensure that training is versatile and suits the needs of your brokers.
- Deliver training regularly so that existing and new staff have up-to-date information on premium funding arrangements.
- Implement specific training to help staff identify financial difficulty triggers and support this with policy and procedures.
- Take proactive steps to identify clients at risk of or experiencing financial difficulties.
- Work with clients to understand their individual needs.

Providing information to clients

Under Service Standard 5 of the Code, when clients enquire about, buy or renew an insurance product, subscribers are required to communicate with them clearly and promptly and provide them with advice that is appropriate to their needs.

This includes explaining the terms of the insurance about which the advice is being provided; and taking all reasonable steps to promptly make available to the client copies of any relevant insurance documentation that the subscriber receives (including, but not limited to, policy wordings, schedules, certificates and endorsements).

In the ACS Questionnaire, Code subscribers were asked how and when they provide the terms of the premium funding contract to the client.

How is information provided to clients?

Almost half (47%) of all respondents did not include information about how they provide the premium funding contract terms to their clients. This may reflect the position where the premium funder provides the contract terms directly to the client for execution prior to any funds being advanced.

Respondents that did give details are providing clients with the information in several ways, including sending the client a link to the premium funder's website or emailing the client the contract terms and conditions. Nearly a quarter (24%) provide information on premium funding contract terms in writing, in person or via mail, with most preferring email, and 15% link to the premium funding system when they issue the client with an invoice.

Automated systems are also used to send information about the contract terms – with an email automatically generated upon renewal. Clients are sent the product disclosure statement and relevant financial services guide (if available) with their invoice.

Information provided to the client can include the premium funding contract/loan application, detailing the borrower's information, the loan request schedule and payment authorisation.

One Category E subscriber sends its clients the invoice and the premium funding contract separately to avoid confusion. Some brokers send the client a link to the premium funding company to make it clear the premium funding arrangement is a separate contract the client must manage themselves.

One Category C subscriber offers premium funding via an independent funding team. The funding offer is a separate contract and does not appear on client invoices. The Committee considers this good practice, as it shows the subscriber understands the independent nature of the contract and the way in which it is explained to a client.

Another Category C subscriber reported using social media to improve its client communication.

Good practice example

When issuing the client with an invoice, 15% of Code subscribers include a link to the premium funding company, to make it clear that the client is entering into an arrangement with a third party (the premium funder).

The Committee considers this to be good practice, as it demonstrates transparency and the independent relationship between the premium funder and the insurance broker.

When is information provided to clients?

Most respondents (69%) said they provide information about the premium funding contract when they issue their invoice or when the insurance contract is renewed.

One Category B subscriber provides different levels of service to corporate and commercial clients. Corporate clients are given information about premium funding when they request a payment option, while commercial clients receive the funding option together with the contract as part of the renewal.

One Category D subscriber provides information to clients based on the premium amount. For premiums over $5,000, they provide information at the time of renewal; for premiums under $5,000, they advise the client that premium funding is an option.

Good practice example

At one Category A organisation, the broker arranges the premium funding, which is included in the insurance quote. The broker clearly explains the details of the premium funding agreement to the client, clarifying that it involves two separate contracts and explaining how the commission works.

Brokers reported they work with clients to ascertain if they have any cash flow issues in meeting their annual premium payment and then offer premium funding as an alternative. Clients seek to spread their payments over a year to better align with monthly sales receipts. One Category E broker noted that it does not offer premium funding if the client has the option provided by an insurer to make monthly repayments.

One Category A subscriber noted that if a client expresses an interest in premium funding, an authorised representative sends them a link to a premium funding quote generated from the funder's system.

One subscriber manages all its client correspondence electronically and sends clients a link to the premium funding page on its website. The client is then directed to the premium funder's website to complete the contract application. Written quotations are provided if requested.

The importance of policies, processes and accurate record keeping

It is vital for brokers to ensure they have appropriate policies and processes in place for arranging premium funding contracts and responding to clients who might be experiencing financial hardship. This includes maintaining accurate records and file notes of all client communications about premium funding contracts in the event of any complaint by a client.

For example, the Committee received a referral about the conduct of a broker from an individual who was in financial hardship and was having trouble maintaining their premium funding contract. Investigating the matter, the Committee determined that the broker's policies and processes for assisting the client were adequate and the broker had not breached the Code.

Recommendations

- Make it clear to clients they are entering into a third-party arrangement with a premium funder.
- Make sure the client understands the premium funding arrangement including the risk of policy cancellation if payments are missed. Make sure the client understands who has authority to cancel the insurance policies.
- Provide information to clients in a clear and simplified manner.
- Explain premium funding to the client. *It should <u>not</u> be included on a renewal invoice without the client understanding what it means*.
- Continue being flexible in delivering premium funding contract terms to clients. Some may prefer paper copies to an online link.
- Ensure clients clearly understand that their insurance policies are the security for the loan and if the client defaults on a payment, then the premium funder is within their rights under the contract to instruct the broker to cancel the insurance policies.

Responding to clients in financial difficulty

The Insurance Brokers Code of Practice does not include any specific provisions relating to the treatment of clients experiencing financial difficulty. Service Standard 5, however, contains applicable obligations relating to the sale of insurance generally, including the expectation that subscribers will:

- act in clients' best interests by identifying their financial situation before arranging to buy insurance services on their behalf; and
- advise clients promptly if their policy coverage is accepted, declined, cancelled or lapsed, or has had additional special terms applied to them.

In the ACS Questionnaire, Code subscribers were asked a series of questions relating to their processes and procedures for identifying and responding to clients with premium funding contracts who are experiencing financial difficulty, including how they engage with the premium funder about these clients.

Processes for responding to clients in financial difficulty

Asked whether they have a process in place for responding to clients in financial difficulty, more than half (53%) of the respondents said yes. Another 16% said they rely on the premium funder's financial difficulty processes and/or policies and referred clients directly to the premium funder for assistance.

Many brokers may not be aware if their client, who has a premium funding contract in place, is in financial difficulty unless the premium funder advised the broker that a payment had been missed or the client advised the broker that they were experiencing financial difficulty.

Three subscribers indicated they adhere to the financial hardship section of the General Insurance Code of Practice (specifically, section 8 of the **2014 Code**). They reported that the premium funder also abides by the GI Code and cooperates with them when responding to clients in financial difficulty.

One Category E subscriber stated that while they usually adopt the premium funder's financial hardship processes and policies, they understood financial difficulty conversations to be private and it was not their place to interfere.

Good practice example

To assess whether a client is financially vulnerable, one Category D subscriber sends a series of questions and a checklist to the client, which it then passes on to the premium funder for review and consideration of appropriate support.

The Committee considers this a good example of the proactive and consistent support an insurance broker can provide to its clients.

Good practice example

One Category A subscriber encourages its brokers to have extensive conversations with clients who may be experiencing financial difficulty, to highlight government package options and ATO support.

The brokers encourage clients to consider their options over the longer term, to avoid focusing only on short-term solutions. This allows clients to resume normal business operations quickly.

At the other end of the spectrum, a Category A subscriber advised that when clients experience financial hardship, they contact the client to discuss the situation and work to find an alternative and appropriate payment solution. If the client is still having difficulty, the subscriber provides supplementary support by providing them with the phone number for the National Debt Helpline's small business support line, so that they can request an application form for Financial Hardship Assistance.

A comparison of Category E subscribers' approaches to financial difficulty

In follow-up discussions conducted as part of the Data Verification Program, three Category E subscribers described differing approaches to their process for responding to clients experiencing financial hardship:

- *One subscriber has a process in place to assist clients in financial difficulty, with staff regularly contacting clients to discuss any financial issues they may be experiencing and helping mediate a resolution with the premium funder.*
- *Another subscriber provides clients with verbal and written communication about its financial hardship process but prefers to manage instances of client financial hardship on a case-by-case basis rather than applying a broad-brush approach.*
- *A third subscriber noted it had no understanding of its premium funder's processes – particularly in handling clients in financial difficulty.*

Understanding how premium funders respond to clients in financial difficulty

Most respondents (60%) indicated they are aware of the premium funder's financial difficulty process and/or policy and how they deal with clients. Premium funders generally notify the broker if a client has missed payments, prompting both the broker and the premium funder to contact the client to discuss the issue. There is generally engagement between the premium funder, broker and the client in respect of the circumstances leading to the missed payments. Nine respondents reported that the premium funder provides them with either guidance notes or a documented process on how they respond to clients in financial difficulty.

One Category E subscriber observed that although premium funders will work with a client to assist them, no premium funder could provide the subscriber with a copy of a client hardship policy. The subscriber noted that, ultimately, if a client cannot meet their obligation to pay an instalment to the premium funder, the premium funder will exercise their option to cancel the policy to recover the loan, and it may choose to secure any outstanding funds directly from the client.

The Committee reminds subscribers that, as they manage the relationship with both the premium funder and the client, they are in a good position to act as an intermediary between each party when instances of financial difficulty arise.

For example, one Category A subscriber with around 40% of retail clients has a close working relationship with its premium funders. If a client demonstrates that they cannot afford to pay the insurance premium as a lump sum, the subscriber refers them to the premium funder. If a client defaults on their payment, the subscriber contacts the client to find out why. The subscriber then works with the client to determine how to resolve the matter.

Similarly, a Category B subscriber offering premium funding to around 5% of its retail clients uses the following process for working with the premium funder to assist clients in financial difficulty:

- If a client defaults on their payment arrangement, the premium funder contacts the subscriber to advise of the default. The subscriber then contacts the client to discuss the reasons for the defaulted payment and suggests potential ideas to assist.
- If the client does not respond to the subscriber, the premium funder sends a default notice to the client.

Good practice example

One Category D subscriber does not have a process and/or policy for responding to premium funding clients in financial difficulty. However, it does have an extensive knowledge of the premium funder's financial difficulty process and/or policy.

The subscriber is aware that the premium funder has a documented procedure for responding to clients experiencing financial difficulty, and that some of the premium funder's staff have undertaken sensitivity training to help them identify clients in financial difficulty and respond accordingly.

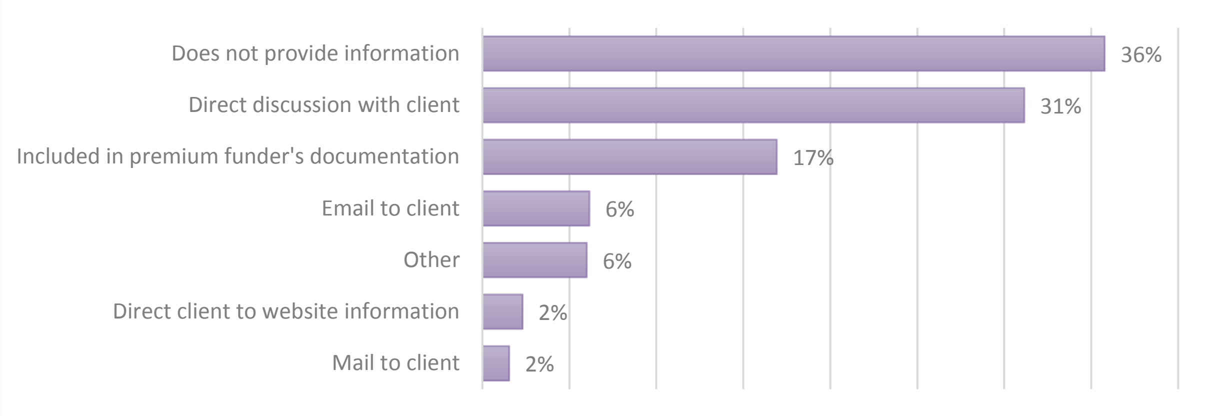
The subscriber knew, for example, that during the 2020 bushfires, the premium funder organised a designated phone line/team to manage queries and mapped a plan to respond to several different scenarios.

Recommendations

- Keep informed of the premium funder's financial hardship policies/processes, specifically when the premium funder is relied upon to support a client experiencing financial difficulty.
- Obtain clear guidance notes or a documented process from the premium funder.
- Ensure the client understands their obligations to the premium funder and should financial difficulties arise work together to find solutions so that all parties are appropriately informed.

Providing clients with information about financial difficulty

Graph 1: How Code subscribers provide information about financial difficulty



Nearly one third of respondents (31%) said they provide information to clients about financial difficulty through direct discussion, either over the phone or in person. Another 17% advised that information about financial difficulty was included in the premium funder's documentation provided to clients.

A small percentage of respondents (6%) email their clients information about financial difficulty, while 2% direct clients to either their own or the premium funder's website for information about financial hardship. Four subscribers said they provide clients with information about financial difficulty in writing.

36% of subscribers reported that they do not give clients any information about financial difficulty. Some brokers explained that they have not had any clients enquire about financial difficulty and therefore had no experience dealing with it.

One Category D subscriber reported that it does not provide clients with any specific information about financial difficulty because the premium funder provides information about contract details.

A Category E subscriber advised that they provide the premium funding contract, including the terms and conditions, to the client to review. The broker reiterates to the client that the funding is a loan that attracts interest and the insurance policies are the security.

Good practice example

Recognising that financial difficulty is becoming more prevalent, particularly in light of the events of 2020 (namely, natural disasters and the COVID-19 pandemic), one Category E subscriber took the proactive step of discussing financial difficulty with its premium funders.

The subscriber suggested that the premium funders advise clients to contact them before a missed instalment becomes critical and warn clients about cancellation in the event of default.

Recommendations

- Make it easy for clients to obtain information about financial difficulty.
- Continue considering ways of encouraging dialogue with premium funders to proactively address financial difficulty.
- Familiarise yourself with the new AFIA Insurance Premium Funding Code of Practice and any sections regarding financial difficulty when it comes into effect, so you can direct clients to relevant information.

Premium funders advising subscribers when a client may be in financial difficulty

Nearly all insurance brokers (92%) have an arrangement whereby the premium funder notifies them (generally via email) when a client might be experiencing financial difficulty. This shows a willingness by both the premium funder and the broker to work together in the interests of the client.

Good practice example

One Category A subscriber's finance team receives weekly reports from the premium funder about any client defaults. The premium funder also contacts the subscriber's client manager if the client has missed an instalment.

This is a good demonstration of the premium funder and the insurance broker working together to promote transparency and provide an opportunity to engage with and help a client who may be experiencing financial difficulty.

Four subscribers advised that they do not have a formal arrangement with the premium funder, and instances of client financial difficulty are dealt with on a case-by-case basis.

Two Category E subscribers observed that while they do contact clients to discuss a missed instalment notification, a missed payment does not necessarily mean the client is in financial difficulty. Both subscribers pointed out that it does, however, provide them with an opportunity to have a discussion with their client.

Recommendations

- If you don't have a formal arrangement with the premium funder, document conversations with both the premium funder and the client and keep detailed notes.
- Regardless of whether a case for financial difficulty is established, it is important for the broker-client relationship that there is discussion and opportunity to explore potential options to support a client.
- If there is no alternative to cancelling an insurance policy, ensure that the client is aware of this situation and its effective date.

Cancelling premium funding insurance policies

Forty-two per cent of respondents engage with the premium funder on the client's behalf to negotiate alternative arrangements before the policy is cancelled. The types of alternative arrangements include:

- deferring or amending contract terms
- waiving fees
- extensions
- granting a grace period
- restructuring payments
- offering financial counselling support.

Three per cent of respondents said they engaged with premium funders to suspend the cancellation of an insurance policy while a request for financial difficulty was being considered.

Just over half (51%) of all respondents said they do not have a specific arrangement with the premium funder to suspend cancellation of the insurance policy, instead taking a case-by-case approach. Brokers also observed that while they can negotiate with the premium funder on the client's behalf, once an agreement is signed it is the premium funder's responsibility to manage the premium funding arrangement and the client, with the broker there to provide assistance if required.

Good practice example

One Category C subscriber does not act on a premium funder's request to cancel policies, as this would not be acting in the best interests of the client. Instead, the subscriber prefers to discuss any such request with both the client and the premium funder.

The Committee considers this to be a good example of the broker promoting behaviours to act fairly and in the best interests of their client. It also proactively avoids a stressful situation for a client who may be vulnerable.

Many brokers understand policy cancellation is a last resort, and most work with the premium funder to reach an alternative arrangement.

Some brokers see their role as that of negotiator and acknowledge that the premium funder is responsible for the funding product.

Many brokers observed that policy cancellation is a rare event and often a last resort. Most brokers liaise with both the client and the premium funder to seek an amicable resolution and ensure an open dialogue between all parties.

Prompt negotiation with the premium funder is considered key in preventing serious issues. Subscribers noted that ideally the situation should be resolved while the funding arrangement is still in a credit position.

One Category A subscriber reflected that their role in the relationship with the premium funder is as client advocate. Any default or identification of client financial difficulty would prompt an authorised representative to proactively engage with the premium funder to identify a solution aligned with the premium funder's financial hardship policy. One Category E subscriber advised their role was only as referrer and that clients discuss options directly with the premium funder.

Recommendations

- Maintain an open dialogue with the premium funder and the client and seek swift resolution from the outset.
- Promote behaviours within your organisation whereby staff act fairly and with empathy towards clients, putting their best interests first in any discussion with the premium funder about the status of the policy. Encourage staff to see cancelling the policy as a last resort once all other options have been exhausted.

Monitoring the treatment of clients experiencing financial difficulty

In the ACS Questionnaire, the Committee asked subscribers how they monitor their compliance with the key commitment in Service Standard 5 of the Code to act fairly, reasonably and in a consistent and ethical manner when they are dealing with clients experiencing financial difficulty.

Twenty subscribers did not provide a response. From the subscribers that did respond, we provide the following good practice examples and highlight some areas where we consider improvements are needed.

Training and development programs

Twenty-four Code subscribers (9.3%) said they have in place or are developing some form of training for their brokers to help them comply with the more nuanced aspects of Service Standard 5. One Category B subscriber reported that its authorised representatives use the Executive Summary of the Financial Services Royal Commission Report as the basis for educating their staff on how to respond to clients experiencing financial difficulty.

Ongoing monitoring

Over a third of subscribers (38%) conduct ongoing monitoring of the treatment of financially vulnerable clients, and the Committee was encouraged to note some of the positive monitoring activities, which include:

- self-reporting
- team meetings – discussion at managers' or directors' meetings
- audits
- breach reporting
- complaints
- first line of defence activities
- reviewing on a case-by-case basis
- reviewing their Internal Dispute Resolution process and complaints to identify trends
- reviewing client feedback (provided through the complaints department and via the website)
- governance procedures
- the CEO monitoring and handling complaints.

One Category E subscriber described using management software to document all actions taken in respect of a client's file. One Category C organisation completes a monthly compliance reporting declaration which captures employees' concerns about any matter that may affect the organisation or its clients, including when a client is experiencing financial difficulty. These reports are reviewed by the responsible manager and actioned as required.

Around 10% of respondents said they have no monitoring processes in place.

Even if a subscriber has not had any clients fall into financial difficulty, the Committee is of the view that they should have processes in place to respond appropriately should this occur in the future.

A dedicated team to respond to clients in financial difficulty

Three subscribers (two Category C and one Category E) reported having a dedicated, trained team to monitor and respond to clients at risk of or experiencing financial difficulty. They also have staff members charged with dealing with premium funders and clients in financial difficulty.

Monitoring managed by the premium funder

Nine subscribers said the risk of a client falling into financial difficulty is monitored by the premium funder. In these instances, organisations work in close consultation with the premium funder. One Category E subscriber described having a conversation with a client if they believe they are experiencing financial difficulty. If the broker identified the client is in need of assistance they contact the premium funder. The Committee encourages subscribers to maintain open communication with their clients and premium funders to ensure appropriate financial difficulty assistance is provided.

Acting in the client's best interests

Service Standard 5 is a general provision in the Code, however, less than one-third of subscribers (28%) explicitly stated that they act in the client's best interests. Some good practice examples given by subscribers included:

- ensuring there is consistent monitoring and a robust process in place
- considering the needs of the client
- assessing the overall situation
- reviewing the client's financial position
- communicating with the client and the premium funder
- working with the premium funder to inform them of the issue
- where possible, putting payment arrangements in place for clients experiencing financial difficulty
- maintaining a good relationship between the client and the broker
- maintaining clear and open communication with the client
- following the Code
- contacting the premium funder to make a fair and ethical repayment arrangement
- keeping track of all communication between the client and the broker.

One Category D subscriber avoids cancelling premium funding where possible, considering it a last resort. The broker is made aware of the client's situation and the organisation provides assistance to clients where necessary.

Another Category D subscriber provides extra support and care when communicating with clients experiencing financial difficulty. Where possible, payment arrangements are put in place and they maintain regular contact with the client.

Recommendations

- Implement training to assist clients who are experiencing financial difficulty.
- Have robust compliance monitoring activities in place to comply with the Code and effectively assist clients in financial difficulty.
- Assisting clients should be front of mind in all interactions – as the broker, what can you do to help this client?
- Use information such as complaints data to assess if there are any gaps in training or process that can be improved upon.

Conclusion

The Own Motion Inquiry has provided the Committee with a good overview of the extent to which insurance brokers use premium funding contracts, how they explain premium funding contracts to clients, and the processes subscribers have in place for dealing with clients in financial difficulty.

95% of Code subscribers offer premium funding to their clients, mainly via third-party providers. This inquiry has provided the Committee with a valuable insight into the important role that brokers play as both intermediary and advocate in the relationship between client and premium funder – particularly when the client may be experiencing financial hardship. Within this context, brokers are doing many things well; however, there is also room for improvement in certain areas.

Whilst around two-thirds of Code subscribers are providing some level of training to help their staff identify and respond to clients experiencing financial difficulty, we note that little of this is formal, specialised training. Most is conducted ‘on the job’. The Committee accepts that it is not always a simple task to recognise clients in financial difficulty and we acknowledge that brokers may not become aware of these situations through their day-to-day contact with clients as clients may be reluctant to discuss financial issues with their insurance broker.

Based on the responses received, most subscribers appear to rely on the premium funding provider to let them know when a client may be experiencing financial difficulty. In the ACS Questionnaire 50% of subscribers said they have a process in place for responding to clients in financial difficulty and some refer ‘at risk’ clients to the premium funder rather than offer direct assistance or advocacy.

More positively, the Committee was pleased to see that almost all subscribers stated they have good lines of communication with their premium funding providers, enabling subscribers to negotiate on the client’s behalf to avoid the premium funder cancelling the policy if the client defaults on their repayments. As insurance brokers manage the relationship with both the premium funder and the client, they are in a good position to act as an intermediary between both parties when instances of financial difficulty arise.

Other positive findings include the way in which most subscribers are communicating with clients about premium funding, making it clear that it involves a separate contract with a third party and the insurance policies are the security for the premium funding loan.

There are numerous examples of good practice from Code subscribers of all size categories throughout the report, along with the Committee’s own recommendations for better Code compliance when offering premium funding contracts and responding to clients in financial difficulty. We encourage all brokers to review these recommendations and make improvements where appropriate within their organisation.

We would also like to thank all the subscribers who provided responses which the Committee has reviewed and utilised to write this report.

Appendix 1. Online questionnaire

Questions under section F of the 2019 Annual Compliance Statement (ACS) dealing with question relating to premium funding arrangements.

F.1 Does your organisation offer premium funding?

[Please select ONE only]

☐ YES, please go to item F.2.

☐ NO, you are not required to complete this section. You will be taken to item G.

F.2 How does your organisation offer premium funding?

[Please select ALL that apply]

☐ Inhouse provider (linked to your organisation as shareholder or part ownership)

☐ External provider (no business relation to Code subscriber)

F.3 What percentage of your retail portfolio has premium funding contracts in place for the period 1 January 2019 to 31 December 2019?

F.4 Describe the nature of the education and training that your organisation provides to employees and/or authorised representatives, or requires them to receive, before permitting them to arrange premium funding contracts to ensure that the client is made fully aware that he/she enters into a separate contract to the insurance contract.

F.5 How and when does your organisation provide the premium funding contract terms to the client?

F.6 Do you have a process in place which deals with clients in financial difficulty?

F.7 Are you aware of how your premium funder deals with clients in financial difficulty?

F.8 Please provide details of how your organisation provides information to clients about how it and/or the premium funder deals with clients in financial difficulty?

F.9 Do you have an arrangement in place with the premium funder on how the premium funder advises you when a client might experience financial difficulty (e.g. missed an instalment)?

F.10 How are employees and/or authorised representatives trained to identify triggers from their conversations with clients to identify clients who may be experiencing financial difficulty?

F11. Please provide details of how the organisation engages with the premium funder to suspend cancellation of the insurance policy on a client's account while that client's request for financial difficulty assistance is being considered.

F12. How does the organisation monitor that it has complied with its key commitment to act fairly and reasonably towards clients in a consistent and ethical manner when dealing with clients experiencing financial difficulty?

Appendix 2. Questionnaire results

The following tables reflect data received via the 2019 Annual Compliance Statement relating to the period 1 January 2019 to 31 December 2019.

Table 1: Categorisation of Code subscribers by size of business

Category	Full time equivalent staff (FTE)
Category A	over 100 FTE staff
Category B	51-100 FTE staff
Category C	31-50 FTE staff
Category D	21-30 FTE staff
Category E	0-20 FTE staff

Note: Effective 1 December 2019, the National Insurance Brokers Association (NIBA) welcomed all Steadfast brokers to the NIBA community. The Steadfast Group was established in 1996 and is the largest general insurance broker network and the largest underwriting agency group in Australasia. This addition increased the number of Code subscribers by over 60% as not all Steadfast members had previously been Code subscribers.

The new Code subscribers were not required to participate in the 2019 Annual Compliance Statement Program. Therefore, the data in this report relates to the Code subscribers prior to December 2019.

Table 2: Responses under section D 'Complaint(s) reporting', section D.4 'Issues involved in complaints received' relating to premium funding

	Cat A	Cat B	Cat C	Cat D	Cat E	Total
Number of complaints involving premium funding as an issue	8	5	6	3	8	30
In % of total self-reported complaints	*1.4%*	*5.7%*	*2.4%*	*3.4%*	*2.6%*	*2.3%*
Reported by number of Code subscribers	*5*	*2*	*5*	*3*	*6*	*21*

Table 3: Responses under section F.1 regarding number of Code subscribers offering premium funding

	Cat A	Cat B	Cat C	Cat D	Cat E	Total

Number of Code subscribers offering premium funding	17	12	32	24	163	248
In % of total Code subscribers	*100%*	*100%*	*91%*	*96%*	*95%*	*95%*

Table 4: Responses under section F.2 concerning how Code subscribers offer premium funding

	Cat A	Cat B	Cat C	Cat D	Cat E	Total
Premium funding offered by inhouse provider	4	2	8	3	8	25
Premium funding offered by external provider	16	12	32	23	163	246

Table 5: Responses under section F.2 concerning premium funding companies

	Cat A	Cat B	Cat C	Cat D	Cat E	Total
IQumulate Premium Funding	5	9	10	12	59	95
Hunter Premium Funding	4	7	9	12	28	60
Elantis Premium Funding	4	7	7	2	30	50
Bank of Queensland Finance	3	4	8	6	27	48
Attvest Finance	1	7	5	5	28	46
Premium Funding	1	2	2	4	34	43
Principal Finance	-	2	1	3	13	19
Macquarie Pacific Funding[4]	-	1	1	2	13	17
Westpac	-	1	-	1	-	2
Other/not provided details	6	1	10	2	23	42

[4] On 20 March 2020 Macquarie Pacific Funding was rebranded to IQumulate Premium Funding as a result of Steadfast Group's announcement to acquire the remaining 50% interested in the business from Macquarie Bank.

Table 6: Financial Hardship policies available on premium funding companies' websites

Provider	Financial Hardship policy
IQumulate Premium Funding https://www.iqumulate.com/	https://www.iqumulate.com/home/ (relating to Australian bushfire season)
Hunter Premium Funding https://www.hpf.com.au/	https://www.hpf.com.au/internet/hpf.nsf/docs/AU+-+Covid+Support
Elantis Premium Funding https://www.elantis.com.au/	https://www.elantis.com.au/assets/PDFs/Elantis-Financial-Hardship-Policy.pdf
Bank of Queensland https://www.boqfinance.com.au/products/insurance-premium-funding	https://www.boqfinance.com.au/financial-hardship
Attvest Finance https://www.attvest.com.au/	https://www.attvest.com.au/covid-19/ (relating to Covid-19)
Premium Funding https://www.premiumfunding.net.au/	
Principal Finance https://principal.com.au/	
Westpac Finance https://www.westpac.com.au/business-banking/business-loans/insurance-premium-finance/	https://www.westpac.com.au/faq/receive-assistance/

Table 7: Responses under section F.3 concerning percentage of retail portfolios that have premium funding contracts in place for the period 1 January to 31 December 2019

	Cat A	Cat B	Cat C	Cat D	Cat E	Total
Up to 5%	4	5	12	6	55	82
Up to 10%	-	1	3	4	25	33
Up to 20%	7	1	7	3	28	46
Up to 30%	2	1	6	6	21	36
Up to 50%	1	-	3	3	21	28
Over 50%	-	-	-	-	4	4

Appendix 3. About the Code

The Code

The 2014 Insurance Brokers Code of Practice (**the Code**) sets standards of good industry practice for the insurance brokers that have agreed to follow its standards when dealing with current and prospective individual and small business clients. The Code is owned and published by the National Insurance Brokers Association (**NIBA**) and forms an important part of the broader national consumer protection framework and financial services regulatory system.

The Code contains 12 key service standards that apply to all insurance broking services delivered to individuals and small businesses by Code subscribers across Australia. By subscribing to the Code, insurance brokers have committed to continuously improving their standards of practice and service in their sector; promoting informed decision-making about their services; and acting fairly and reasonably in delivering those services.

The Code is currently **under review**.

The Committee

The Insurance Brokers Code Compliance Committee (**the Committee**) is an independent compliance monitoring body established under the Code and the Code Compliance Committee Charter (the Charter). It comprises an independent chair, a person representing the interests of the insurance broking sector and a person representing the interests of consumers (including small businesses). The Code and Charter entrusts the Committee with several functions and responsibilities, including to:

- conduct Own Motion Inquiries into compliance with aspects of the Code, and
- provide advice to NIBA on training and other activities necessary to assist subscribers to meet their Code requirements.

The Compliance Manager

The Australian Financial Complaints Authority (**AFCA**) provides Code monitoring and administration services as Compliance Manager to the Committee and NIBA by agreement. AFCA has appointed a dedicated team of staff (Code Team) within its office to undertake that task.

Definitions

For ease of reference when reading this report:

- 'the Code' means the 2014 Code unless otherwise stated.
- 'consumers' or 'clients' includes individuals or small businesses that are current and prospective customers of Code subscribers.
- 'Code subscribers' means insurance brokers that subscribe to the Code.

For more information about the Code, the Committee and the Compliance Manager, please visit **www.insurancebrokerscode.com.au**.