

Farm and Crop Insurance Premium Rort by an industry insider.

Ever wondered why there are so many insurance brokers in small regional towns? Clearly the broking industry is highly profitable, but why?

The Royal Commission is looking into the way Insurance Brokers are paid and for good reason. The insurance broking industry at this time does not have to disclose fully the payments they receive.

Insurance brokers acting on behalf of an insured can be paid for their services in a variety of ways. The most straightforward is a simple fee arrangement between broker and client. More commonly, however, the broker earns a commission, which is agreed with the insurer but taken out of the premium paid by you, the insured.

On farm and crop insurance the premiums can often be very high and what the insurance broker doesn't tell you is that they get a kick back from the insurance company of anywhere between 15% ██████████ to 20% ██████████. The con comes as you will notice on your bill that there is also a "Brokers Commission" which is a much lower amount of say \$500. The con comes because you, the client at first glance will assume the broker is receiving that \$500 for the work they have done when in fact if your premium is, say \$20,000, they are actually receiving \$4500. As the premium increases, the kick back increases.

That is why there is a high concentration of brokers looking for high premium, farm and crop insurance as the commissions paid are high.

The con is the fact the way the brokers go out of their way to conceal this commission. You will never see it on a bill or in any of the documentation they send you. Practices like home visits and taking extensive notes on paper are all smoke and mirrors to give the impression they are doing more work than they do. The reality is most brokers only use 1 or 2 insurers and place the business with the insurer they have the best relationship/commission structure in place. The fact that in this age of computer technology it only takes a few minutes to get a quote and bind cover (the insurance term for completing the transaction) means very small teams of brokers can cope with large numbers of clients. One would have thought that premiums would fall due to the increased technology, however, anyone with farm or crop insurance will tell you that premiums have actually increased over time. Why is this, when car premiums have fallen so much over the past few decades? One reason it that the industry remains particularly opaque to confuse clients and for brokers to inflate premiums with their added commission. The privileged club of insurers and brokers in the farming sector has no reason to reduce premiums as there is no real competition and clients feel they need the brokers services to navigate a confusing industry. That is simply not the case.

When a broker places insurance, it is usually assumed that he is acting as agent of the prospective insured. Is this really happening? When you can receive a 20% kick back from a particular insurer the temptation to steer clients that way it is just too much of a temptation.

Theoretically, as agent, the broker has a legal duty to act in good faith in what he believes to be the interests of his client. This means he must account for any secret profit that he makes, and he is not allowed to put himself in a position in which his interest and duty conflict. More specifically, an agent must not, without his client's knowledge, acquire any profit or benefit from his agency other than that contemplated by the client at the time client and agent entered into their contract.

How many people truly know how much the broker is making? Again I point back to the "Brokers Commission" on your bill, the \$500 I talked about. That is merely the extra icing on a very large cake of commission the broker is actually receiving.

Another issue to bear in mind is that the broker does not need to take this hefty commission. They could, if they wanted to, reduce it. Most of the computer systems the insurers use have a simple yes or no function as to whether the broker wants to reduce his commission. A lawyer or accountant gets paid on the time it takes them to complete a body of work, why not an insurance broker? Is it really fair on a \$20,000 premium to be making \$4500 or more for a few minutes work? To be fair they probably pop down to see you or buy you lunch but as I stated this is all smoke and mirrors to disguise the fact that the actual job of doing the research to insure you only takes a few minutes.

So what can you do about it?

Firstly, ask your insurance broker how much they receive from the insurer. If you are unhappy with the amount they have been paid, ask for a rebate or a reduced premium. The minimum they should return (which they will do in a heartbeat to stop you digging further) is give you back the \$500 "broker commission".

Secondly, move your policy. Most brokers will tell you you can't move a policy mid term. This is in fact not true. Get quotes from other brokers and armed with the fact you know how much commission they receive barter on price, it could literally save you thousands.

Finally, in the future I would ideally like to see farmers get together and approach an insurance company themselves, getting rid of the middle man and negotiating a good deal. Insurers would be delighted to insure a collective of farmers together and give the farmers the 15-20% commission directly to them to reduce their premiums.

In conclusion, pick up the phone and demand to know what your broker is actually getting paid. Negotiate with them and don't listen to the bluff. With all the pressures on farmers at the moment a few extra few thousand dollars each could go a long way to help.