

THE CODE

To the Nine

My thoughts

The Nine

You guys do not have an easy job! You need to protect the public by putting systems and processes in place with regards to advice they receive on insurance. You want systems and processes that the public will not find “over the top”. You want processes and systems that will not result in lots of highly skilled Advisers leaving the industry. You want to help make the career of being an Adviser an attractive one to younger people. You also want to help change the fact that New Zealanders are one of the most under insured people in the Western World. You have a very hard job where keeping everyone happy will be almost impossible.

About Me (John Devery – Adviser – First Insurance www.firstinsurance.co.nz)

Someone had to have a passion for Insurance.....turned out to me. In the nearly 17 years I have spent in insurance, I have learnt a lot, laughed a lot, and even cried on the odd occasion. Insurance can be wonderful, sad, frustrating, and fulfilling in many ways. I have worked in large corporates as an insurance broker (AON and Crombie Lockwood), I have been employed and self employed, I have worked in insurance with Banks (ANZ and Kiwibank), I have worked in insurance administration, and I have advised young, old, rich, and poor, those in business, those employed and unemployed. I have learnt a lot.....

I am based in Wellington and now run my own business. If you ever want me to attend one or more of your meetings to give my thoughts on anything regarding insurance – I would be happy to do that.

People

In general, New Zealanders know very little about insurance. You should not and cannot assume that most people have even a basic understanding of insurance. I have learnt this from thousands of meetings with people in their homes over their kitchen tables, in offices with business people, and even with professionals like accountants, many of whom know little about insurance. Many cannot answer.....

- What is the difference between mortgage insurance and income protection?
- What is the difference between Trauma insurance and TPD cover?
- What is the difference between Level Life Cover and Stepped Life Cover?
- What insurance covers do you currently have in place? – most don't have a clue.
- Do you understand the insurance you currently have in place? – 90% tell me....NO
- Have you read your policy wording and do you understand it? – 99% say NO

People are not taught about insurance at any stage of their lives. They rarely hear about people having successful claims.....they only hear about people who's claims are not paid. 99% of the time they were not paid because they were either not covered for that situation or they told lies on their application form.

As an Adviser – I spend most of my time Educating people about insurance. I would say the majority of people don't have the insurance they need, simply because they have never understood it. The meetings I have and the reports I produce are kept simplified because usually people are in a state of complete ignorance about insurance – so I take them step by step through what it's all about, how it works, how the different covers work.....what a Broker is (because 90% don't know).....how I'm paid (because some

think they have to pay me), how levels of insurance can be worked out in a logical way, and how insurance is managed over time (because many think it is just something you do..... and then you forget about it).

Most people don't know how to THINK about insurance. They tend to think 5 years or 10 years in the future. I have to constantly stop people and get them to think about, what happens to their Partners, their children, their lives.....if they die or get seriously ill "**tomorrow**". Often it is a battle to get people to think about that..... but it is all part of the education and thought process I take clients through.

Often people have one insurance in place at the expense of other badly needed covers. For example the only cover a family might have is a Top Level Health Insurance Plan.....but they have no Life Insurance at all, even though they have a big mortgage and young children. (This can be a result of peer pressure).

Advisers

Being an Adviser is a great job – which I love, but it is a very difficult job and one which many would never survive in. Advisers get a bad wrap in the fact that many of the general public think we are out to sell them insurance they don't need, rip them off, and tell them lies. They also think because we are paid via commission that we will always arrange things so that we are paid the highest commission we can get, rather than putting the needs of the client first. Some think because we don't have a degree that we are not knowledgeable or skilled in what we do, or worthy of being paid well for the advice we give.

The standard process of putting insurance in place generally requires THREE MEETINGS and sometimes Four. These meetings can range from 30minutes up to 2 hours or more. It also needs to be remembered that unlike Lawyers or Accountants, Insurance Advisers generally travel to meet the client, at the Insurance Advisers expense. The first meeting is to obtain the information to base reports and recommendations on. After sometimes spending hours considering options and constructing a professional report, the Adviser then meets the clients for a second meeting to go over the report, look at options, answer questions, and then complete application forms. This second meeting can take two hours or more and often clients are irritated at how long it takes – but there is simply no way to speed up this meeting and still do it properly. The Adviser then submits the application to the insurance company – which can take 30min or more. After weeks and multiple calls to the insurance company to find out progress and sometimes additional calls to clients to clarify information.....a result is usually arrived at. Sometimes it is a decline, meaning the insurance company has decided they do not want the client, and this happens a lot more than you would realise. Many many applications are declined, usually because the client is not in good health. So that means..... All that work, all those hours, the money spent on petrol (which I pay for), all that work on the report which I spent so much time on, all the time away from my family in the evenings, for all that effort **I get nothing.....zero**. A lot of people think Advisers make lots and lots of money, but many don't. A lot of Advisers work very hard and make no more than \$50,000 per year after they pay all their expenses.

Oh.....the Third Meeting.....The third meeting occurs when the insurance company makes an offer of insurance which is different to that applied for. So the application might have been approved, but with an increased premium or with some health conditions excluded. So this means another meeting (and more petrol to be paid for.....and more time away from my family), to go over this with the clients. Very often the clients don't like their assessment.....and decide not to proceed with the cover. So again.....lots and lots of time and effort, with Three Meetings.....and the final result. **No client.....and zero income**.

Finding people to talk to about insurance is "extremely hard". I can send out 200 letters (at a cost of \$200) to a highly selected group, with a great offer.....and still only receive one single response back. I can send 100's of emails with no response. I can spend thousands on advertising in magazines or doing letterbox drops.....and be lucky to make one single sale out it. There are referrers – like Accountants,

Real Estate Agents, Mortgage Brokers....but they often want up to 40-50% of the resulting commission, so there is certainly a cost to having referrers, they don't come free.

Yes....there are bad Advisers. I once heard an Adviser say..... "well I had to sell them something". Very disappointing. I think most Advisers do a very good job within the environments they must work in.

Commission

There is simply no other way to do it. If we operate like Accountants and Lawyers, and charge a Fee, most will never pay it, because it must be remembered that insurance is not something most people want. People will pay for Accounting Advice, or Legal Advice.....but most won't pay for advice for something they don't even want to purchase in the first place. There is a "sales" component to insurance – we need to "convince" people to purchase it. An Accountant or Lawyer does not have such a sales component, they don't need to sell solutions to their clients.....we do.

Insurance companies cannot simply have a sales force on salaries.....because that then takes away "Choice" for the general public. As much as everyone would like to think it is so.....all insurance companies are not the same. They have different products suited to different people, and people at different stages of life. Some companies try to specialise in different types of covers, or particular ages. It is then the Insurance Adviser who provides that choice to the general public by providing reports after considering options from various insurance companies. If you move towards a salaried sales force, you reduce the quality and suitability of insurance the public receives because advisers then work for a single company.

So you need an independent sales force of Self Employed Advisers. The only way to pay them is by commission. When it comes to insurance – most people do not realise that almost all insurance companies pay around the same commission levels. **THE RESULT OF THAT IS.....** there is then no need to focus on who pays the most commission (because they are all the same), which means.....Advisers can focus on "**what is best for the customer**". So the general public needs to get off this fixation that all Advisers are focused on commission first, clients second.....as this is simply just not true.

The concept of having regulation that insists on Advisers disclosing remuneration, would be disastrous. The commission we receive can range up to 180-200% of the annual premium. Which means if someone puts a policy in place that costs the client \$150 per month (which is common), the resulting adviser commission could be as high as \$3,600. Most people would find this level of commission seemingly out of proportion, but what the general public don't understand is all those multiple meetings we have that result in **zero income** after huge amounts of work. All the costs we have (phone, car, office, PA, advertising, professional costs, office costs, petrol, training etc.....), and money we have to pay back to insurance companies when people suddenly decide to cancel their policies. I know of one insurance adviser, not earning a lot, who owed one insurance company over \$40,000 due to people stopping their policies. Most people do not realise that Advisers have to pay back money when they cancel their policies within 2 years.

Our job is not an easy one.....and not one that is attractive to young people coming out of universities.

Advisers do not have people lined up waiting for a meeting. Often a whole week can go by without one single meeting – simply because we often cannot find people who want to talk about their insurances.

There are people in insurance making \$500,000 per year.....but there are also legions of insurance advisers only making \$50,000 per year. So keep that in mind please. As a result of The Code, you don't want to end up with 100's of Advisers leaving the industry, leaving the public in a much worse position with the only advice they can get – being from Banks or the like.

Banks

I worked as a Senior Insurance Adviser in ANZ for 5 years. I have also worked for Kiwibank in insurance. **Banks are a major problem when it comes to insurance** – believe me. I know what goes on. I was highly pressured by very Senior Management in one of the banks I worked in to blatantly and continuously lie to bank customers about what was best for them in regards to their insurances. When I would not concede to this directive.....I was made redundant, even though I was ranked 3rd in a team of 35 nationwide insurance advisers within that bank. Banks typically place themselves first....and customers second. Banks have very poorly trained staff who have no “passion” for insurance, and they provide their trusting customers with poor advice – which is biased towards the banks own products – which tend to be weak poorly worded insurance products. The end result is.....bank customers end up with the wrong levels of insurance, the wrong products, and low quality products that often fail at claim time.

What I can say to you is.....if any of you (The Nine), have taken out insurance via a Bank, please call me, as you probably don't have what you think you do. I will review and tell you what you have really been paying for. The worst part of Bank insurance is **“you are not covered for pre-existing conditions”** in the fine print of many of their policies. People do not understand what this means, and it is not explained to them, as 95% of bank staff don't understand it themselves. It means in most cases, you are not covered for ANYTHING you have EVER had in your life, since you were a baby, and anything that might be related to that condition. People are not told this by bank staff. Clients find that out at claim time. End result a claim is not paid.....they tell all their friends.....insurance gets a bad name.

Banks are trying to pull the wool over your eyes – believe me. They will come across like Angels to you, and tell you they will do everything perfectly according to The Code – but they won't. Insurance via Banks is and probably always will be, bad for customers in most instances. Big statement I know. If you really want to protect the general public.....the bigger enemy is Banks.....not Advisers.

Compliance

My wife is an Auditor.....so I fully understand compliance and the need for it. But so many forms and processes within insurance compliance can be illogical, time consuming and very idealistic. Example.... We go through a fact find process with clients asking questions that are hard to say “No” to, such as, “do you want funds to pay for private school upon your death?”, “do you want full replacement income should you be disabled from work?”, “do you want health cover so that you do not have to wait on public waiting lists?”, “do you want a lump sum should you suffer a stroke?”. The result is the Adviser then has to come up with a solution to cover all of these needs (due to compliance), fully knowing the clients cannot possibly afford the resulting premium. So compliance then says the adviser needs to “recommend” the young family of five spend \$800 per month, when the adviser fully knows (from experience) and the incomes of the family, that they can afford no more than \$200 per month. So then in the second meeting when the adviser presents the recommended “solution” – he/she looks stupid (and unprofessional) for recommending such a highly priced solution – but compliance says he/she must (losing all respect from the client). Sometimes the clients will agree to put in place more insurance than they can really afford, which often means, four to five months later, the clients cancel all their insurance, the adviser pays back all the commission, the clients are put off insurance (and Advisers), and everyone loses.

So with compliance you need to be very sure that you don't over do it. With Advisers being made to look stupid for recommending over priced solutions, and clients losing all faith in Advisers.

I have seen so many Fact Finds where the Question: **“How much do you want to spend on insurance?”** – is NEVER asked. This comes from the old days when insurance companies trained staff never to ask that question, because it then tends to limit the amount of insurance sold to that client. Myself, I would far rather ask such a question to make sure my “solution” is logical and within budget. Compliant Fact Finds

tend to be “Way over the Top”, and from what I can see, tend to be constructed by legal or paranoid administration staff. Often you might end up with 150 questions to ask the clients in the first meeting.....and rather than seeing this as being Thorough.....many clients just see this as being annoying and over the top..... and after 90minutes of such questions clients are usually looking at the clock hoping that the Adviser will just get the hell out of their house. But supposedly we need to ask the 150 questions to prove that we “know” the client, should we ever be taken to court.

Clients get a confusing double message.

They see adverts on TV saying..... “and we will have your insurance in place in 10 minutes, all without medicals and a simple application form”. Clients go to the Bank and the teller tells them to fill in a simple form, sign here, sign there.....and all done. Then clients come to an Adviser expecting their insurance can be put in place all within a single short meeting – but suddenly they are asked 150 questions, and are thrown into a long drawn out three meeting process in their homes over a period of 3-4 weeks. For many people it is just too much, so they choose to not have any insurance or just go online or go to the bank and put in place some low quality cover, in one meeting, not suited to their actual needs.

To The Nine

As part of the process of constructing **The Code** – I would totally recommend that each one of you goes through a review of your own insurance, at your home, and experience the drawn out processes that the general public is expected to go through. For some this would be an eye opening experience. Do you really want to approve a process that, Yes....keeps the general public safe with quality advice, but with the downside that the public get totally turned off by the long drawn out process of using an Adviser? You need to come up with a good balance, which does not currently really exist in today's Adviser processes.

Training

This is an area you really need to be careful of. The average age of Advisers is something like 57 years old. Many have decades in the industry, but with little formal qualifications. The experience they have far exceeds any qualification they could ever do. Often courses are run by people with no actual experience as Advisers who base all that they teach on “theory”that theory often falling apart when you are in the middle of a complex meeting with clients. The costs of many courses are often very expensive, with the benefit for most experienced advisers being minimal to nil. Most experienced advisers know significantly more than the people conducting most courses. If you make experienced advisers – go back to school – **all you will do is push them to retire or leave the industry**, and you will lose HUGE amounts of invaluable knowledge and experience - with the public being the main losers. You seriously need to make sure you give credit to advisers with years of experience – but having no formal qualifications.

You cannot put Advisers along side Accountants and Lawyers who have degrees, because you must remember that Accountants and Lawyers end up working on salaries and can charge their clients for advice whether the clients like that advice or not. Advisers are in sales, earning commission (and we are not ashamed of that.....like sales is a dirty word..... I am very proud to be in sales), and we do not charge clients for our advice – even when they like that advice. Our profession is already not that attractive to young people coming out of University, or people looking for new careers. The first 1-3 years in insurance can be dreadfully hard financially. If you put on top of that a heavy requirement for expensive study, all you will do is drastically reduce the number of Advisers, which then means the general public will have less and less opportunity to access an Adviser (which is exactly what the banks want – as more and more people will be driven to them to get low quality advice). So be very careful with training requirements.

Basic Training should be given by experienced Advisers – who know what they are talking about. Being an Adviser is an Art, not quickly learnt in a classroom or out of a book. Much of what is needed can only be learnt over time. New Advisers need to “mentored” and learn by doing over time.

What does the Public Want?

They want firstly to understand the insurance they pay lots of money for. That currently does not happen in most cases. They want Advisers who will educate them, and honestly put in place logical covers with levels of cover that they can afford. They want Advisers to present them with recommendation and options that make sense and are in keeping with their budgets (not illogical compliant reports that don't make sense). The public wants "Choice" – they don't want to be limited to a few covers from just one source (such as a bank). The public want regular reviews, and if it is in their best interests to change to another insurance company due to better premiums or a new product, then they expect their Adviser to suggest that option to them (without the Adviser being frowned upon by the industry for doing so). The public expect Advisers to be professional, creative, and analytical.....not just present templated solutions requiring little effort or thought. The public want a process that allows them to put quality insurance in place without having to spend endless hours in their homes with an Adviser they just wish would leave.

What do Advisers Want?

We want recognition that we do a lot of work for Free. We want people to realise that we are very skilled in what we do, and that our job is not an easy one. We want people to know that we are generally honest people who have the client's best interests at heart. And we want people to realise that we don't all make huge amounts of money – in fact most of us make very average incomes. We also want people to understand that our incomes, are just as private as their incomes, and we should not need to disclose anything in that regard to them. Just like I don't ask the shoe salesman how much commission he is getting when he sells me a pair of shoes. **How much are The Nine being paid to work on The Code?** You are right, it is none of my business. In the same way, what I earn in my business is of no concern to the general public. We want business processes that allow us to give quality service and advice to clients without being forced by compliance to give illogical and over the top recommendations to clients, that just make us look unprofessional and stupid, and which drives clients away from insurance. We want to be trusted as a default, not assumed to be dishonest as default. We want Advisers who are plainly dishonest to be ejected from our industry without the opportunity of returning, because all they do is give insurance and our industry a bad name. We want the Government/Insurance companies to be more involved in educating people about insurance. That means Government paid TV adverts and letterbox drops, and insurance being included within school curriculums for everyone – not just those taking Financial Literacy!

What do The Nine Want?

You want to fairly consider what the Public want and need, but balance that with the needs and views of the Advisers. You want to make sure that you do not put legislation in place that heavily favours the Banks, as this will only be a negative outcome for the public which will reduce choice and quality of advice. You want to make sure you do all that you can to maintain and improve the concept that being an Insurance Adviser is a good career choice with long term value for both younger and older people. You want to put in place Codes, systems and processes that are not over the top for Advisers or too costly, and processes that the general public see as being reasonable and logical (not requiring endless amounts of information or many hours with multiple meetings simply to put some basic insurance in place).

My Offer to You

I am happy to be involved in any of your meetings to bounce ideas off. I am based in Wellington and happy to put aside time to meet with any of you, or in group meeting environments.