CHOOSING THE RIGHT INSURER

Choosing the right insurers is an important task and there are a number of key factors that should be considered before making a decision:-

Security & Regulation
We all remember HIH. They were the second largest insurer in Australia at the time of their demise and nobody expected them to fail so suddenly. Today the major insurers are heavily regulated by APRA (Australian Prudential Regulation Authority) who monitor an insurers solvency and provide a government guarantee should they fail.

APRA have a range of very sophisticated rules, regulations and requirements that licensed Insurers must abide by to keep operating. These included Solvency tests, Reinsurance assessments, Risk Management assessments, and a strong legal framework designed to make sure Australian Insurers are among the safest in the world.

Insurers are also policed by the Financial Services Ombudsman (FOS) who will listen to a complaint and make a binding ruling on an insurer to pay a claim. Insurers are required to be members of FOS but alternative Insurance products are not.

Alternative Insurance Products/Funding
There are still a few sources of insurance or insurance like products such as Discretionary Mutual Funds (DMF's) and Direct Off Shore Foreign Insurers (DOFI's) who operate in Australia on an unregulated basis and should be used with extreme caution and as a last resort. They are not regulated by APRA and there is no way to measure their financial security.

Ratings Agencies
An important indication of an insurer's security is their Standards & Poor's rating. S&P are the key ratings agency for insurers and a rating of A or better should be a minimum requirement. Some of the less secure insurers don't have an S&P rating at all, or they seek an alternative rating because it is easier to get an A rating from some other ratings agencies who don't rate insurance companies as vigorously. S&P have recently changed the way they rate insurers, bringing in a stricter regime and causing some insurers to have a reduction in their rating.

ASIC
Don't be fooled by those who make a big deal about having an ASIC license. All Financial Services providers operating in Australia are required to have a Financial Services License. There is no measure of the Company's security undertaken by ASIC to get a license.

Reinsurance
APRA require the insurers they regulate to have an approved reinsurance program with secure reinsurers. This is a key protection for clients. In the recent New Zealand earthquakes a number of insurers were bankrupt or closed down due to inadequate reinsurance programs (New Zealand doesn't have the same levels of regulation as is required in Australia). Buying insurance from a DOFI or DMF leaves you with an unregulated reinsurance program that may be inadequate or they may have no reinsurance in place at all. Without reinsurance the risk of failure is very high. – Continued over…

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Quality of Service
Most insurers will tell you they are good, but the litmus test is how they service claims. As your insurance brokers we can see the levels of service offered to lots of our clients and have a far better understanding of who is good and who isn't. We also have far more clout when dealing with an issue. We know how insurers operate, we know the issues, we have the ear of senior management and due to the support we receive from Steadfast and PSC we have a lot more clout than an individual or small Broker does.

In the event of a major catastrophe the Major Insurers are quick to mobilise their services, they have a monopoly over the available Loss Assessors & Service Providers due to their standing contracts and relationships and they have the staff and resources to cope, where small insurers are often left unable to provide any suitable service to their clients because the numerous service providers needed are already taken.

Quality of their Products
The policy wording is a key component of any insurance product, it forms the legal contract between you and your insurer, obviously the better the wording the better the outcome is likely to be.

One interesting point is that if you insure through a Discretionary Mutual Fund, they can decide to pay claims at their discretion meaning they can refuse a claim that is technically covered by the policy wording without explanation or legal recourse for the client. Technically they are not an insurance product, they just appear to be one.

Price
While a good price is an important outcome this shouldn't be at the expense of the other key issues. An insurance policy from a bankrupt insurer isn't worth anything and lousy service will leave a bad taste long after the joy of the saving.

Keep in mind that often DOFI's & DMF's are cheaper because they don't pay taxes, but this can be an issue to if you don't pay a Fire Service Levy in NSW and Tasmania the Fire Brigade can invoice you for their services should there be an incident and they attend your property.

Summary
The most important thing you get when you buy insurance is financial security against a significant loss. This can only be achieved by insuring with a financially secure and professional insurer that will be around for the long term. This is particularly the case for Liability Insurance where losses can take many years to settle and Property insurance where Natural Disasters and Catastrophes can strike hundreds or even thousands of properties from the one event.

Don't take the risk, insure with an APRA regulated, S&P A rated insurer and make sure your financial security is worth the paper it is written on.

The information provided in this article is General in nature and should not be considered Personal Advice. You should seek advice before making insurance decisions.