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Analysis: The rise of Australia's broker networks

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By James Chalmers

James Chalmers explains why Australia's broker networks are expanding beyond their traditional independent broker network base.

Once a frontier land teeming with small independent brokers, the Australian broking landscape has become increasingly consolidated as competition and compliance costs ratchet up the pressure to join forces.

Large internationals such as Aon, Marsh and Willis maintain a strong presence in the market and Arthur J Gallagher in 2014 asserted its intentions to become the country's largest broker by swallowing Oamps, previously one of the largest independent brokers, and has made several other acquisitions including Strathearn last month.

However, the SME sector in particular is dominated by the country's SME independent brokers of two largest broker networks - Austbrokers (50 brokers in Australia and New Zealand) and Steadfast (over 300 brokers); and while the appetites of each for growth show little sign of slowing, they are embracing different strategies to satisfy their hunger.

Showing the significance of the two networks over their market, the National Insurance Brokers' Association has 360 members and claims to represent 90% of all insurance brokers in Australia.

Broadening reach

In late November, Steadfast added 41 new brokers to its ranks of more than 300 by acquiring Insight Australia, a smaller cluster group controlling A$250m (£119m) of gross written premium targeting the SME market.

Alongside the Gallagher deal, there were only a couple of similar Australian broker acquisitions of note in 2015, after a flurry of M&A activity in the preceding years.

Austbrokers CEO Mark Searles says that the slowdown is symptomatic of the current softness of the market.

"Brokers are very focused upon looking after their clients and we're in a very soft marketplace," he says. "It's not a time when too many brokers are going to be thinking about going into partnership or selling."

Instead, both Austbrokers and Steadfast have seen some of their most encouraging growth come not from brokers but from underwriting agencies and ancillary services.

Both set up underwriting arms in the early 2000s, and have seen them enjoy rapid growth. Austagencies features more than 20 agencies and annual GWP of more than A$280m, while large recent acquisitions have pushed Steadfast's agency business to 22 brands and almost A$800m in GWP.

Steadfast CEO and managing director Robert Kelly said the firm's move into an underwriting agency had begun as a way of obtaining quicker underwriting decisions for its brokers but has since become a substantive part of its business model; it now operates in the open market.

"Around 50% and in some cases more of the business in those underwriting agencies is done by brokers outside the Steadfast network," Kelly comments.

"We have an open market policy on that and we treat everyone who comes as equals and there is no advantage for the Steadfast broker over any other brokers."

Wide offerings
While Austbrokers has been growing its agency side, it has also made some bold forays into personnel risk services, making large acquisitions of workplace injury and rehabilitation specialists.

Searles says most of their clients faced three categories of risk - physical, financial and personnel.

"Classically, an insurance broker will be very focused on the general insurance where the physical risks are, the building, the motor, the whole pack," he comments.

"What we're talking about now is total risk solutions. With employee risk, that's making sure there aren't accidents at work and if you do have injured workers, how you get them back to work more quickly.

"Similarly, in the financial risk area for business, there is a huge opportunity for life risks, whether it be income protection or key-man insurance."

For Searles, the embrace of risks beyond those traditionally dealt with by insurance broking firms is part of a fundamental shift for Austbrokers, to holistic risk advisors.

He has an interesting point of view regarding the threat digital disruption poses to traditional insurance brokers, arguing that taking a contemporary broker's work online is the wrong argument.

"We believe the risk advisor of the future should be one of two trusted advisors to the client, the other one being the accountant," Searles says. "He or she needs to be a true partner in that respect and ensure all risks are being adequately assessed and covered."

He adds: "That will give you greater tenure as well because your renewal rates will be high. And if the market is incredibly soft in the physical risk side of things as it is today, a broader relationship can stand a price reduction on one side because the partnership ethos comes through."

Fresh territories

Austbrokers has also been looking further afield in a geographic sense. In the last year, Austbrokers' acquisitions in New Zealand have made it the third largest broking entity in that market, writing A$500m in a premium a year.

That, however, is the limit of the group's international ambitions for now. Searles reflects: "Some of our brokers do have alliances and a presence in Asian markets, but from the group perspective, it's not on our radar right now."

Steadfast, on the other hand, has not only established a strong New Zealand presence but is making tentative but burgeoning forays into the wider Asian market as well.

"Australia sits at the bottom of Asia and we are an Asian country," Kelly says. "We have investments in Singapore already in a broker and we are interested in expanding our network and underwriting agencies there because it is such a highly regulated and well-regarded market.

"From our point of view there is a lot of business being done in Vietnam, Cambodia, Myanmar, the Philippines, Thailand, Malaysia, Indonesia, Singapore and Hong Kong, so we've developed a network of correspondent brokers who are well-established in those jurisdictions."

In the past 12 months Steadfast has already enlisted 17 Asian brokers into that informal network.

Kelly adds: "We're not tracking (premium being written) in a definitive manner yet - we're probably about a year away from doing it - but we have a vast amount of interaction between those brokers and our brokers all around Australia."

Going it alone

Some observers have argued the increasing consolidation of the broker sector has made things more difficult for small independent brokers but for Dallas Booth, CEO of the National Insurance Brokers Association, cluster groups have become a way of allowing smaller brokers to properly compete with large broking firms.

"Working with cluster groups, relatively small broker firms have massive influence and massive buying power in the market - to the tune of billions of dollars - and so that really gives the smaller brokers a very strong footing," he says. "I think it's been a tremendous development over the last few years."

Kelly said that while conditions have become more challenging for independent brokers, they were not at risk of extinction.

"Small brokers operate in some specialised areas and sometimes have very loyal client bases so there is the ability for some to survive longer term," he says. "But sometimes it is much better to be part of a mothership rather than a rowboat trying to go across the Atlantic."

The future, at the moment, is bright for Australia's broker networks.