

## Brokers, insurers heading for change

LEGISLATIVE changes may soon make it necessary for consumers to choose between types of short-term insurance brokers.

In essence, these are brokers who deal in the distribution of products for a particular insurer (or so-called 'tied agents'), and independents who deal in tailored advice in respect of covers available from a range of insurers.

The changes in the Insurance Laws Amendment Act will affect everyone, from individuals to corporations. They are intended to change the present situation in which brokers in the same company are able to earn both commissions and fees for different types of services, and where possible conflicts of interest could arise, for example, when a broker finds himself having to choose which "master" to serve — the client or the insurer.

"Short-term insurance has traditionally generated income for brokers on the basis of both fees and

commissions, with the fee model being probably more widely applied in the corporate or commercial market," says Kate Lellyett, general manager of Glenrand MIB's Personal Product Solutions division.

As originally proposed, the legislation, which requires amendment of the Short-term Insurance Act, would oblige brokers to choose which "identity" they wish to have in the marketplace.

A task group was subsequently formed, comprising the South African Insurance Association, the Financial Intermediaries Association and the Financial Services Bureau, the watchdog body of the insurance and banking sectors, to provide input for the new regulations, more specifically in terms of "binder" agreements between brokers and insurers. The legislation has now been postponed to August.

Lellyett said the hope is that a compromise can be reached, along the lines of permitting the use of both models by the same company.