



Financial Intermediaries Association  
of Southern Africa

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## **INSURER BEHAVIOUR IN “TOUGH” TIMES**

Although indications are that the economy has “turned the corner” it is also clear that it will be some time before a full recovery occurs. In the interim, some insurers, just like most other businesses, are likely to be looking for ways in which they can increase the return to shareholders, while others may see this as a good time to embark on an expansion programme to attract additional market share. At the same time, the increasing pressure from the regulating authorities on insurers to take full responsibility for the actions of operators that conduct business on behalf of the insurer (defined as “associates” in the regulations to the FAIS Act) is tending to force a revision of many of the current terms of broker agreements.

Naturally this is a generalisation of a trend, which exists to a certain extent in similar forms in both the long term and short term space and not all insurers will see a necessity to alter their practice, while some may well take more “drastic” action than others.

Some of the moves that can be expected as insurers seek to hold down costs are as follows:

### Tightening up on claims

Whilst one would hope that this does not mean that valid claims will be rejected, it is likely that claims staff will apply extra attention in assessing whether the claim is really valid, rather than just looking to pay. Intermediaries can assist in the process by making sure that claims are supported by all the relevant documentation, etc. Brokers are, however, in the frontline of the fight for their clients’ contractual rights and it is their primary duty to point out and agitate against frivolous and opportunistic interpretation by underwriters to the detriment of their clients.

### Setting increased minimum targets for intermediaries to justify servicing costs or cancelling “dormant” broker contracts

This has become quite an issue in both the long term and short term space. In some cases, insurers are happy to negotiate, perhaps looking to settle on a form of “reduced service level” but in other cases they are sticking to strict criteria. (One has to understand that even if there is not a high level of service being offered to intermediaries, there are usually various “overhead” costs associated with maintaining a contract, such as the cost of producing monthly commission statements, compliance checks, etc.)

The point has also been made that this kind of behaviour may be a contravention of the FAIS legislation, in that intermediaries are being “forced” to place business with an insurer based on factors which are not solely related to the needs of the client and the product fit. However, the FAIS General Code of Conduct relating to “Conflict of Interest” refers to the payment of a financial interest where preference is given to the quantity of business secured to the exclusion of quality of service which is not the case here and with other insurers who adopt this practice.

This is clearly a commercial decision made by the insurer and is not in breach of any of the Acts as far as we are aware. We don’t believe that ASISA, SAIA or the FSB will prescribe to insurers as to how they should do their business other than when it comes to a breach of the statutes or an appropriate code of conduct.

Naturally there is a risk to them in this, because they may find that in the process some brokers refuse to “play ball” and move the book to another insurer, meaning that they could lose considerable business and that the resultant increase in their proportional costs given the lower income stream outweighs the costs that they were seeking to eliminate in the first place. (This would be especially crippling if the insurer is only doing one line of business or if the intermediaries took the viewpoint that if minimum criteria are placed on one line they should opt to move all lines away from that insurer.)

Intermediaries need to exercise skill in negotiating the necessary contracts to allow them to fulfil their obligations to their clients.

When the larger, more complacent risk service providers “flush” their unproductive small brokers, it is likely that opportunities will arise for successful mergers/joint ventures with a combined offering that may well be attractive to emerging smaller underwriting facilitators seeking additional market share.

#### Cancelling policies where the loss ratios are unacceptably high

This is obviously something that an insurer is entitled to do, although reason dictates that suitable notice should be given to allow the risk to be substituted to ensure ongoing protection for the client. Intermediaries need to accept some responsibility for maintaining the balance between premiums and claims and to act in the best interests of their clients in arranging suitable cover. Not only this, but brokers should come to an understanding with their risk service providers to act with great restraint when considering giving notice of cancellation to clients of historically good standing, but who have experienced a temporary bad run. In these circumstances such drastic action could have serious and lasting negative repercussions for the unfortunate policyholders.

#### Introducing new contract wording, perhaps with “penalties” for activities or inactivities that are seen to add to their costs

Intermediaries need to be prepared to negotiate the terms and conditions of contracts with providers. Where they are not happy with the end result, they obviously have the right to “vote with their feet” as it were and to do business with other providers.

The FIA is not in a position to become involved in “collective bargaining” negotiations on contract terms and conditions on behalf of our members, since this is one of the practices that was highlighted in a recent legal opinion obtained by the FIA on the possible infringement of the Competitions Act.

#### Not providing hard copies of certain documents but making them available to intermediaries electronically

While this form of transferring costs is probably highly annoying for some, it is part of a worldwide business trend and is often justified using the environmental preservation argument (both cutting down on paper waste and saving the forests). There is little that can be done about this other than to make an effort to only print off those documents that are really needed in hard copy (and, of course, to try to negotiate with the insurers wherever possible). Of course, there is requirement that policy wordings must be provided to clients.

It may well be “fashionable” to save on printing costs by switching to electronic communication with clients, but one needs to bear in mind that the average South African insurance consumer may not be adequately equipped, and indeed sufficiently computer literate, to benefit from such alternative methods of communication.

#### Introducing tougher underwriting requirements

Two forms of this are the broader application of a requirement for tracking systems on vehicles (not necessarily just on “high value” vehicles as in the past) and discretionary treatment of risks in certain areas perceived to be a higher risk for flooding (perhaps even with a requirement for a proper geological survey for some risks).

Some insurers may look to apply tighter target market criteria, aiming for those areas of the market that they believe will maintain a suitable level of profit during the downswing.

As the fortunes of risk carriers fluctuate, the broker must have his ear on the ground and “play the market” to the best possible advantage of his or her clients.

In conclusion, it is clear that now more so than ever there is a need for intermediaries to “stand up and be counted” in fulfilling their role in the market by continuously seeking the best solution for each client while taking into account the need for prudent choice of the best business partner to carry the risk, remembering that cheapest is not necessarily best.