

Cancellation of broker agreements or contracts

Over the last 15 years, and particularly since the implementation of FAIS, the cancellation of broker agreements or contracts has become a hot and contentious issue.

Should an intermediary, who has multiple arrangements with various insurers, sell a client the best solution? Or should the intermediary sell the solution from the company with whom the intermediary has the best relationship, the one which offers good service, product knowledge and other support? There may be many different answers, and even more "ifs" and "buts".

Why do insurers cancel contracts?

A couple of years ago, the FIA conducted some research and the results indicated that the vast majority of insurers only cancel broker contracts if fraudulent and/or suspicious activity is involved. This occurs mainly due to "switching" of clients, or as it is also known, "churning".

"Churning" is not easily defined, and it is often a case of "when I do it, it is in the client's interest, but when someone else churns my client, it is poor advice and bad practice". Given such a highly subjective mindset, churning is obviously a very contentious issue.

But it is an issue high on the industry's agenda, because it also has much to do with the relationship between an intermediary and an insurer.

If the relationship is good, there is often a high level of support between the two parties. But when the level of support from one of the parties decreases, the relationship suddenly fades. In this struggle of relationships (or shall I say business support?), are the clients' interests really taken into account or is the primary issue the relationship between the insurer and intermediary?

One-sided cancellations

Despite feedback from insurers to the contrary, "one-sided" contract cancellations are still a reality. Contracts are cancelled due to a lack of support, and due to churning, two issues that sometimes go hand-in-hand. But we have to separate two issues:

the service level agreement (SLA); and the cancellation of contracts.

Service

A service level agreement is normally negotiated between the insurer and the intermediary, based on the level of support from the intermediary. It is a business decision and similar decisions are made in all other kinds of businesses: the 80/20 principle will always apply.

The current distribution channel is expensive and insurers have to revisit it from time to time, hence the move towards franchises. If an intermediary does not support an insurer or the intermediary's clients don't like a specific insurer – is the intermediary in a position to demand superior service? Business sense tells us that the answer is simply "no!"

However, according to FAIS, the intermediary has, at least, a right to some form of service, because FAIS demands that the intermediary delivers to the client. This is the grey area. If a client provides an intermediary with a broker appointment, the intermediary is entitled to the information, whether or not the intermediary has a contract, and regardless of the service level agreement with the insurer. It will be a momentous day for the industry if the FSB mandates that the industry must supply policy information to anybody who is entitled to it within 24 hours. Then intermediaries will be able to comply.

Two-way street

For intermediaries who expect good service, the answer is simple: make the target set by the broker consultant, or live with the consequences! Alternatively, vote with the pen, and if you don't support a particular company and its products, don't expect top-class service.

A broker contract could be cancelled due to a lack of support from the intermediary, depending on the contract. But if both parties agree, it should not be a problem. Why would an intermediary want a contract if the intermediary does not support the

insurer and has not done so for some time? What is important is that the insurer clearly communicates the process to the intermediary, including the payment of outstanding commissions.

If an intermediary does support a company and its products well, but the service level remains poor, then the intermediary clearly believes in the product, but has either an incompetent broker consultant or regional manager.

In this case, the head of broker division or the head of distribution should be contacted. Life insurers have different management structures with regard to broker distribution and some of these structures are complex and expensive, hence the move to broker franchises.

If this does not resolve the problem, and an intermediary lodges a complaint regarding the poor service with the FIA, the issue will be taken up by the specific FIA Short-term, Financial Planning, Employee Benefits or Healthcare exco to determine whether it is a national issue. If so, the FIA will take up the matter with the insurer's senior executives. If not, the FIA will take up the matter with the manager responsible for the specific area and deal with it accordingly.

Who is watching?

FIA policy is not to interfere in business arrangements and commercial decisions – such as service level agreements and fee structures – between intermediaries and insurers.

However, when generic issues, which could potentially impact FIA members and the intermediation industry in general, arise, the FIA will intervene and act accordingly. For example, the FIA has encountered one or two cases in which the insurer one-sidedly cancelled contracts and, without reason, held back commission that was contractually due. In such cases, the FIA addressed and sorted out the problem.

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