

Insurance: Broking Model

A panel has recommended measures that will not only ensure greater synergy between broking companies & insurers but also streamline the process

To streamline insurance broking, a panel has suggested that insurance broking companies be responsible for resolution of complaints of customers rather than merely acting as forwarding agents. It has also said that broking companies should create a market and not attempt to poach on the agency system as the conventional role of tapping the existing market and competing on the existing business is not desirable on pricing aspects.

The report of the committee on insurance broking, under the chairmanship of Suresh Mathur, has said that competition demands that insurance brokers should act in a harmonious manner with other insurance intermediaries and insurers in reducing the causes of complaints and follow only those complaints that have a genuine cause.

The committee says there is a requirement to immediately activate dispute adjudication procedure as envisaged in the Irda Act. "The ultimate jurisdiction of the complaint, when it becomes a dispute is the course of law and the insurer if his contract in the form of policy is faulty or the services promised in the policy are not attended by him. However, Insurance Brokers Association of India (IBAI) may be made to act as a complaint resolution body through an alternative dispute resolution system and enhance its value to the insurance market," the report says.

The panel has suggested that the Insurance Regulatory and Development Authority (Irda) permit insurance brokers to maintain a cash-deposit facility for the insured and transmit the premium to the insurer on a timely basis. Also, even the online gateway system can be opened to the brokers with connectivity established with the insurers and the system made open for online checking by the regulator. While the benefits of having new and faster channels need to be reaped, the panel has suggested that the loopholes created by them be plugged as well.

Also, the IBAI would be advised to impart legal education to its members, interpret the decision of the state consumer courts, high courts and the Supreme Court. If there are any legal issues arising out of practices followed by the brokers, including international practices

and precedents, the same may be collated and a formal solution obtained on a consultative mode and even by using the intervention of the insurance regulator.

The panel has said that that an insurance broker has a fiduciary duty to act in the best interest of its client and provide a sound practical advice, independent of any insurance company's influence, and do a need-based selling. A professional insurance broker deals with many insurers and has access to different types of policy wordings. He helps customers decide what risks to insure and what types of cover are best and what it would cost.

In 2011-12, brokers contributed a significant 17.12% in non-life premium and 5.8% in the number of policies. Similarly, in life insurance, brokers contributed around 4.5% of the total first year premium. For Life Insurance Corporation, it was 0.05, indicating that there is a lot of scope for brokers to widen their reach. The total numbers of licences issued as on December 31, 2012, are 343, of which 294 are direct brokers, 43 composite brokers and six reinsurance brokers. The total capital invested by insurance brokers works out roughly to R 300 crore.

The panel has suggested that Irda issue only one broking licence to a single corporate group. The promoter company of the insurance broker should give an undertaking that none of the clients within the promoter group will be compelled to take insurance from them. Insurers have expressed concern about the survival of their agency system and issues of conflict of interest that may arise if banks become insurance broking companies.

The broker bodies have strongly complained about delays in renewal of licences. Insurers, too, have expressed helplessness in utilising the services of the brokers pending licence renewal.

The panel has suggested a three-tier system for licencing procedures. Insurers are agreeable to broking companies having networking arrangements, duly entered into a contractual and fiduciary capacity with the counter parties, provided it serves the insurance needs of the clients without compromising on issues of conduct and performance of their statutory functions.

The members of the panel were of the view that a complementary role of networking arrangements should be allowed to insurance brokers for their overseas clients/brokers and vice-versa with the responsibility to act within the regulatory framework. The panel has also sought standardisation of minimum information. As the online system is being firmed up, it will help address concerns of insurers and brokers. Irda would act as a model regulator in

standardising the forms and information required to be exchanged between the registered entities of Irda.

(Financial Express)