



Thursday, 18 February 2010

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Dear Sir

General Insurance Intermediaries: Data Collection Requirements

The National Insurance Brokers Association (NIBA) is pleased to respond to the Treasury Consultation Paper in relation to proposed data collection obligations for general insurance intermediaries that hold an Australian Financial Service Licence (AFSL) to deal in general insurance products.

The Objectives of Data Collection

The Consultation Paper identifies two objectives namely:

1. To monitor the exemption arrangements which apply to insurance business flowing overseas to Unauthorised Foreign Insurers (UFIs) enabling those arrangements to be reviewed.
2. To assist in a better understanding of the Australian general insurance market by requiring all insurance intermediaries to undertake a data collector function.

NIBA fully supports the first data collection objective. Since the introduction of Financial Services Reform when a previous data collection arrangement was abandoned, NIBA has continuously argued for the reintroduction of data collection on insurance business placed with UFIs. Insurance intermediaries provide the only realistic source for such information and, if only information relevant to UFI business is required, it can be collected without undue hardship from

a relatively small number of intermediaries.

NIBA does, however, seriously question the second objective and the appropriateness of using insurance intermediaries as a major source of information about the insurance business placed with organisations that are directly supervised by the Australian Prudential Regulatory Authority (APRA) and which already provide APRA with significant information about the insurance business that they write in Australia.

Because of the wide diversity in the way in which insurance is distributed in Australia involving a significant number of insurance intermediaries and the nature of the administrative systems they employ, those intermediaries are poorly placed to provide comprehensive data to APRA.

There would be a very high cost both in terms of dollar outlays and industry disruption if all insurance intermediaries, around 1500, were required to provide data along the lines of that suggested in the Consultation Paper. The great bulk of the data sought is not information that would normally be collected by insurance intermediaries for their own purposes. Insurance intermediaries have little internal use for such data. In these circumstances the quality of the data is likely to be poor and the cost to APRA in acting as the national statistical collector is likely to be very high when compared to the other statistical collections that it is involved with.

Who are Insurance Intermediaries?

Insurance plays a significant role in all our lives, both personally and business-wise and a wide variety of distribution arrangements have been established to cater for the insurance needs of Australians. Insurance can be arranged individually or by groups. It can be underwritten by companies that sell a wide variety of insurance products or by specialist insurers. Insurers can deal directly with the public, with insurance agents or brokers or with underwriting agencies that specialise in particular lines of insurance. In relation to Lloyd's, insurance intermediaries can arrange insurance for clients directly with Lloyd's in London or through the 80 odd specialist cover-holders that operate in the Australian market as agents for Lloyd's.

With some limited exceptions, in order to arrange insurance in Australia a person must hold an AFSL or be the authorised representatives of an AFSL.

NIBA understands that ASIC has issued about 1500 AFSLs that allow the licensee to deal in general insurance products and has authorised around 700 of those licensees to use the term "insurance broker" or "general insurance broker". Of the 700 around 500 are members of NIBA.

NIBA members vary greatly in size and sophistication. At the top are a few international insurance brokers that operate on a world wide basis. At the bottom end are very small one or two person businesses. The great bulk of NIBA's members are small businesses.

NIBA has little knowledge of the other 800 AFSLs that are not "insurance brokers" but suspects that a large number of them act as agent for authorised insurance companies. Some may act for a particular organisation or group. It is likely that a number of them place business with Lloyd's and a small number place insurance with UFIs.

Who Places Insurance Business with UFIs?

NIBA suspects that there is only a relatively small number of its members that place insurance business directly overseas with UFIs. This normally requires a relatively high level of sophistication with overseas representatives. In dollar terms most of this business is included under the High Value Insured (HVI) exemption.

A small number of underwriting agencies operate in Australia as agent of a UFI. They are only able to do so in relation to an atypical risk exemption, e.g. equine. Large and small brokers place insurance business with them.

It is likely that the number of insurance brokers placing insurance directly with UFIs and underwriting agencies acting for UFIs is less than 50.

Administrative Systems used by Insurance Intermediaries

The administrative systems used by insurance intermediaries are primarily directed at billing and premium collection. In other words the system is focussed on collecting the appropriate premium from the client and passing on the correct amount to the insurer and to other relevant parties. The system is usually specifically tailored to meet the needs of the intermediary, the clients of the intermediary, insurers and the market sector involved. While insurance brokers usually employ complex computer systems, in some situations an insurance intermediary could use a very simple computer system or even a manual system.

In addition to their billing systems intermediaries usually have a file on each client. This file is usually an extensive one containing all relevant information about the client's risks and insurance placements. It is usually not possible to aggregate information contained in individual client files. Aggregated information about the insurance business undertaken by the intermediary is normal only available from the billing system.

While this arrangement satisfies the needs of the individual intermediary and has served the industry well over many years it is a poor foundation and basis for the proposed industry data collection. Some of the particular difficulties are:

- It does not provide policy information by APRA class. APRA classes are used by insurers to assist with policy pricing and by APRA for prudential supervision. They are not relevant to the activities of insurance intermediaries. In some cases intermediaries use their own risk classes of insurance which are significantly different to APRA classes.
- It is not able to divide policy information into underwriter types (general insurers, Lloyd's underwriters and UFIs).
- It is not able to provide information on the number of policies issued. The system can only record the number of transactions made in relation to policies irrespective of whether the transaction was the result of a new policy or a variation to an existing policy. The one policy may be adjusted or varied on a number of occasions.

- The system would not be able to cater for double counting where there is more than one intermediary dealing with the same policy i.e. where an insurance broker arranges a policy with an underwriting agent for an authorised insurer or with a Lloyd's cover-holder in Australia.
- Definitions of terms and the practices used vary widely between intermediaries. For example there is no standard definition of "premium". It can vary depending upon the requirements of the intermediary, the underwriter and the client. Some brokers record "premium" when it is due while others record it at the time it is received. The attached table outlines premium components that are available generally in insurance broker systems. It illustrates the complexities involved in attempting to establish a consistent definition of premium across all intermediaries.

What is Needed Before the Systems Used By Intermediaries Could Produce the Required Data?

Before an insurance intermediary's system could produce the required data there would need to be;

- Agreement on standardising terms such as the definition of "premium" and procedures for completing the data forms so that there is consistency across all intermediaries (a very large task given the numbers and diversity involved).
- Extensive computer system adjustment customised for the individual intermediary's operation (another large task). Retrofitting APRA classes to systems that already employ different risk classes presents particular difficulties.
- Extensive training in the use of the revised system making all relevant operators familiar with such items as the APRA classes of insurance and agreeing industry-wide procedures for dealing with cases where a particular insurance policy covers more than one class (a further large task).
- Testing the system.

Even if these steps were followed at considerable cost to the industry, the resultant data collection is likely to be of poor quality. Consistency across such a large number of contributors is bound to be a problem. Double counting would be difficult to avoid because of the large number of intermediaries that place insurance with either Lloyd's cover-holders or an underwriting agency for an insurer.

The cost to individual intermediaries could force some small operators out of the industry.

NIBA notes that the Consultation Paper provided no cost benefit analysis for the proposed arrangements. It does, however, appear to NIBA that the cost would far outweigh the benefits particularly as a large proportion of the information gathered would only enhance data already collected by APRA. If additional data about the Australian insurance market is required, it would be far more cost effective for it to be supplied by authorised insurance companies or Lloyd's rather than introduce a completely new collection arrangement for all insurance intermediaries.

NIBA's Suggested Approach

NIBA suggests that rather than obtaining data from all insurance intermediaries relating to business placed with authorised insurers, Lloyd's and UFIs, **data be collected only in relation to UFIs from intermediaries that directly place business with a UFI.**

If this suggestion is taken up there would be a single return form based on Form 2 with some minor modification. It is likely that less than 50 intermediaries would be involved.

All the intermediaries required to provide data under the NIBA suggested approach are likely to be relatively sophisticated and could be expected to deliver quality data to APRA. These intermediaries would still need significant changes to their systems in order to comply but the necessary system changes would be far more modest than that necessary to satisfy the requirements outlined in the Consultation Paper. The intermediaries involved would need at least six months to fully comply with the requirement

A possible timetable for the introduction of the new requirements would be:

1. Treasury/APRA/ASIC/NIBA to reach agreement by the end of November on the standard definitions to be used and the procedures and data to be collected.
2. Data collection for three months from 1 April 2010 on a voluntary pilot study basis by those relevant intermediaries who are ready to commence data collection.
3. Reporting on pilot study data to APRA by 31 August 2010.
4. Normal half yearly collections begin from 1 July 2010 with reporting to APRA within 40 working days of the end of each half year.

NIBA is of course prepared to engage in discussion with you about its submission. If there is any further information you require please do not hesitate to contact me.

Yours sincerely



Noel Pettersen
Chief Executive Officer

Intermediary Premium Components

| Premium Heading | Definition | Chargeable to the Client | Intermediary Income/Tax | Payable to the Insurer |
|---|---|--------------------------|-------------------------|------------------------|
| Company Premium | Base Premium amount (prior to any levies, taxes or charges applying). For Property Risks, this would be inclusive of the Terrorism Premium component for Intermediaries | \$3,141.08 | | \$3,141.08 |
| Fire & Emergency Services Levy (F&ESL) | Combined value of Fire Service & SES Levy (NSW), where applicable is paid to the Insurer along with the Company Premium. Where the Insurer is offshore, the levy is charged to the insured and the Intermediary is responsible for collecting and paying this to the Statutory authority. | \$447.57 | | \$447.57 |
| Stamp Duty | Stamp Duty, where applicable is paid to the Insurer along with the Company Premium. Where the Insurer is offshore, the Intermediary is responsible for collecting and paying this to the Statutory authority. | \$325.29 | | \$325.29 |
| Underwriter Charges (Insurer Fee) | Additional Premium component which is not subject to commission. This is an additional charge imposed by the Insurer. Some examples are 'Survey charge' or 'Fee' for Underwriting Agencies. | \$0.00 | | \$0.00 |
| Premium GST | Premium Goods and Services Tax, where applicable is paid to the Insurer. This is the GST % calculated on the Company Premium, F&ESL & Underwriter Charges components. | \$358.87 | | \$358.87 |
| Broker Fee | Service Fee charged by the Intermediary to the Client. This is classified as Income to the Intermediary and does not relate to the Insurer. | \$100.00 | \$100.00 | |
| Client Discounts | Discount conceded to the Client by the Intermediary. This is classified as a reduction in the Income to the Intermediary and does not relate to the Insurer. | \$0.00 | \$0.00 | |
| Fee GST | Fee Goods and Services Tax, where applicable is paid by the Intermediary to the ATO. This is the GST % calculated on the net value of the Broker Fee & Client Discount components. | \$10.00 | \$10.00 | |

| | | | |
|---|---|-----------------------|-------------------|
| Brokerage | Brokerage amount conceded by the Insurer to the Intermediary. This is classified as Income to the Intermediary and is deducted from amount payable to the Insurer. | \$628.22 | -\$628.22 |
| Brokerage GST | Brokerage Goods and Services Tax, where applicable is paid by the Intermediary to the ATO. This is the GST % calculated on the Brokerage and is deducted from the amount payable to the Insurer. | \$62.82 | -\$62.82 |
| Withholding Tax | Non Resident Taxation. Where the Insurer is offshore, where applicable is paid by the Intermediary to the ATO. This is normally calculated as a percentage of the Company Premium and is deducted from the amount payable to the Insurer. | \$0.00 | \$0.00 |
| Fire Brigade Charges (Price Waterhouse Scheme) | Where the Insurer is offshore, Fire & Emergency Service Levy applies and the intermediary participates in the Fire Brigade Deduction scheme managed by Price Waterhouse, this amount is paid by the Intermediary to PWC. This is normally calculated as a percentage of the Company Premium and is deducted from the amount payable to the Insurer. | \$0.00 | \$0.00 |
| Total Due by Client | Gross Written Premium, corresponds to the Total of all Client charges. | \$4,382.81 | |
| Total Payable to the Insurer | Net Premium, corresponds to the Total of all Insurer related components. | | \$3,581.77 |
| | Income / Tax | 728.22 / 72.82 | |