FIA Comments on specific RDR proposals set out in Chapter 4 (Short Term), 24 March 2015

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Proposal A:
Forms of advice (financial planning, up-front product advice, on-going product advice) defined, with related conduct standards.

Comment:
<A>
This is a new approach to an intermediary process that is entrenched in the short-term insurance industry globally. The separation of "advice" from intermediary service and the further sub divisions of “advice” and “intermediary service” will set the short-term industry in South Africa apart from its counterparts around the world. It will also be enormously disruptive and will create risk and additional workload and cost in the industry both in its implementation and operation. The rationale of whether this is truly in the clients best interests needs to be examined carefully. We support the regulator's intentions to engage in on-going focused working groups and we request that we be included in such workgroups as a key representative stakeholder.

In particular, new definitions need to differentiate between judgemental / personal advice on insurance products (client fee), factual information on specific insurer products (commission) other non-product advice and consulting services such as risk management, legal, value-added products, etc. (client fee) and how these relate to up-front product and on-going product advice.

Reference is also made to comments made on pages 88 and 89 (Annexure III) of the RDR document as well as the attached Addendum 1 which refers to the FIA's submission made to the FSB’s “Call for contributions on intermediary services and remuneration (2011)”.

</A>

Proposal B:
Standards for "low advice" distribution models.

Comment:
<B>
A clear definition of what is intended by "Low Advice" is required - is it intended for the low-income market, direct marketers or general situations where it is not feasible or necessary to conduct a proper needs analysis, e.g. where a client has just bought a new car and needs cover? We believe the term "Low Advice" to be fraught with potential pitfalls particularly at the time of claiming. It is also based on the assumption that the consumer is fully aware and understands what they are purchasing.

Where a single need product is provided a simplified version of the analysis / advice model needs to be introduced.

A further category needs to be considered where sales are based on features and benefits and not as advice and where product can be sold by a third party.

In particular we need to ensure that the thinking of the FAIS Ombud on these matters dovetails with that of the RDR and any low advice model will have to be very clearly defined.

This is an administration-intensive, high cost model where it is essential that economies of scale be taken into account, i.e. differentials in cost base for low and high volumes.

We do not support the "no" advice concept in principle as it is essential to at least provide factual "product specific" advice to all who buy this type product, while there are also often other aspects that will require some form of informed guidance for the consumer. However, we accept that this may have to be catered for in the light of certain distribution models, although consumers would have to clearly accept the related responsibility/ies.

</B>

Proposal C:
Standards for "wholesale" financial advice.

Comment:
<C>
We agree that brokers should always and to the fullest extent possible consider the needs of the insured individuals when advising "wholesale clients" such as employers and also should ensure that the affected individuals have a proper understanding of product terms, conditions and benefits thus contributing towards fairer outcomes to all. Whilst the broker / remains accountable for analysis and advice to the primary client being the Employer / Fund there is also a level of accountability to underlying beneficiaries.

</C>

Proposal D:

Standards for sales execution, particularly in non-advice distribution models.

Comment:

<D>

Refer also to our comments relating to the preamble to Proposal A. We support further discussion around formulating a definition of “sales execution”.

For the "advice" model, provision needs to be made for the payment of remuneration for instances where the business is not written but costs are incurred by way of recommendations and quotations provided.

</D>

Proposal E:

Standards for on-going product servicing.

Comment:

<E>

This needs to be split into the annual renewal / review service and services that may need to be performed during the year. The annual renewal / review would comprise both commissionable services to the provider and advice to the client. Similarly, services performed during the cover period may be services performed on behalf of the product provider or further advice to the client (such as on-going risk management advice).

It is this area where clarity is required on advice which benefits both the client and the Insurer e.g A review of sums insured and subsequent additional premiums benefits the client on the one hand by reducing the risk of under insurance and benefits the product provider in terms of greater premium income and reduced reputational risk at the time of a claim.

The activities comprising the complete claims function need to be considered and differentiated between the: core intermediary service and value-add claims management services performed for the client and outsource services performed for the insurer.

All brokers who collect premiums on behalf of insurers, as agent of those insurers, are obligated to provide a guarantee - usually in the form of that issued by the Intermediaries Guarantee Fund (IGF) in order to protect the interests of the premium paying client - a client is guaranteed that a premium paid to a broker is deemed to be receipt of that premium by the insurer.

A stringent financial test is made prior to issue of the guarantee and in cases up to 100% collateral could be requested prior to issue of the guarantee. It is also expected that the insurer would have conducted its own due diligence prior to outsourcing this function.

In terms of the loss experience of the IGF this is running at less than a 4% loss ratio since inception in 1990 with one claim reported since 2009 which is indicative of the success that the financial due diligence has had. The sum of the total claims paid since inception in 1990 is less than one year's premium revenue to the IGF. It is therefore requested that the comments of "miss-appropriation" be substantiated in terms of actual client losses and whether these are from the "rogue" element who would in any event have a disregard for any regulation.

Premium collecting brokers have invested in costly IT programmes and staff that manage this process and not least of all is the management of the return debits (unpaid) which serves for client retention from which all parties benefit.

Brokers may place different insurance types with different insurers – a client may have his / her

portfolio placed with 4 or 5 different insurers (in order to meet the best advice criteria) and the broker is positioned to offer the client a single premium collection facility instead of having to manually oversee the collection of premiums by 4 or 5 different insurers.

Access to policyholder data has been extensively addressed and "regulated" in the Binder regulations and should, with the appropriate due diligence and enforcement on the part of the insurer's (and compliance by Brokers) should mitigate any concerns in this area

</E>

Proposal F:
Insurance premium collection to be limited to qualifying intermediaries.

Comment:
<F>
We agree that this should continue to be practiced in a controlled environment and refer to comments made in E above. We are unable to comment further on this until any new criteria are communicated.

</F>

Proposal G:
Revised standards for investment platform administration.

Comment:
<G>
N/A to short term.

</G>

Proposal H:
Standards for product aggregation and comparison services.

Comment:
<H>
A distinction needs to be made between the so called "aggregators" and those functions of a broker where the activities of aggregation and comparison services is part of the day to day functions of the broker and where TCF and FAIS prevail.

We welcome the levelling of the playing fields for those entities having a client interface but who are not subject to the FAIS Act and other relevant regulation. We also support the notion of full disclosure to a client in terms of whether advice is being rendered in respect of a product provider's own range of products or in terms of general market best practice which may include relevant products not provided by a product provider, for whatever commercial reason.

</H>

Proposal I:

Standards for referrals and lead generation.

Comment:

<I>

The provision of leads and where there is no advice or communication between lead provider and client, whether through an aggregator service or not, is a totally separate transaction between a third party and an FSP and should not fall within the ambit of this proposal.

We support the proposal to consider the introduction of standards for referrals and lead generation between regulated financial institutions and / or where there is an interface or dialogue between the prospective client and the lead provider and where the lead provider has exercised any form of product endorsement as set out in the preamble to Proposal I.

</I>

Proposal J:

Outsourced services on behalf of product suppliers to be more clearly identified and regulated.

Comment:

<J>

We believe that the Binder Regulations and Outsourcing Directive 159.A.i (LT &ST) adequately cover all the principles necessary to promote business behaviour and mitigate any conflicts of interest.

We welcome further clarity on the issue of "outsourcing" and "intermediary service" activities relative to the different business models and services offered and where they can further enhance or clarify the contents of the Binder and Outsourcing regulations.

</J>

Proposal K:

Types of adviser defined: Independent (IFA), multi-tied or tied.

Comment:

<K>

The present status in the short-term segment needs to be debated to assess and understand the regulators view on how brokers would be classified. Currently for a broker to deal with an insurer there needs to be an "Intermediary Agreement" in place - this includes the Corporates or so called Independents. We do not believe that this implies an "allegiance" or "not free of influence".

Clients approach and use a broker specifically for his / her ability to provide advice and to be able to select from the wider market, appropriate products and services.

The connotation of having to deal with a "Multi-tied" broker (multi-tied implying an allegiance to THOSE insurer/s) poses a negative threat to the functions and sustainability of the broker, whose primary function is to represent the client.

It is unclear as to who (in the short-term sector) would be regarded as an IIB as there are no brokerages who do not at least earn commission or act in some way on behalf of the insurer, i.e. collection of premiums. The standards to be regarded as Independent are unreasonable and the IIBs seem to be almost as regulated as the Multi-tied Advisers.

Confusion will undoubtedly prevail in the minds of a client who has both a personal lines and commercial portfolio with a broker who will declare being multi-tied for one and independent for other (let alone the additional costs of administering this internally).

Brokers will be required to be either tied, multi-tied or independent. Consideration to be given to the broker firms and in particular the banks who will operate in all three categories, e.g. Home Owners – Tied, Personal lines with multi insurers – Multi-tied, Commercial – Multi-tied and Corporate Independent and or Multi-tied? This so-called "hybrid" model is well established through the STI industry and even if it is agreed that an intermediary agreement does not rank as an agreement that prohibits such intermediaries from operating as "independent brokers" (ref. first paragraph above) the incorporation of binders on a single or multiple insurer basis should not prevent such brokers from advising the same or other clients on an independent basis. Agreement on this point will then facilitate further detailed discussion on the model.

It is our recommendation that two classifications be considered, that of the independent and all others accompanied by suitable disclosure of status, ties, etc.

</K>

Proposal L:
An IFA may advise on certain products on a multi-tied basis.

Comment:
<L>
It is presumed that this proposal applies only where the IFA principle role is that of an IFA for investment products in which case it does not affect the short-term industry.

</L>

Proposal M:
Further input required on criteria for IFAs to offer sufficient product and product supplier choice.

Comment:
<M>
The experienced broker has over a period of time developed a comprehensive underlying knowledge of the market including insurer preferences and appetites for different types of risks and their product differentiators, strengths and price structures. It follows that when the broker understands a client's risk transfer needs, it will only approach that section of the market most appropriate to provide a solution to those needs. It is also contended that when a broker selects an insurer for a binder, this selection process takes place at product level – but nevertheless does take place and all activities carried out should be fairly remunerated

A typical short-term personal lines portfolio could consist of one insurer for the home contents, the "bond holder" nominated insurer for the property and a specialist insurer for the motor section. The same principle will apply even more so to commercial business.

For personal lines business, where high unit numbers are involved, it is usual that the broker will select one or maybe two or three insurers who provide a comprehensive product offering. This is often done by way of Binding Authorities.

The commercial broker needs to "play" the markets from the general insurers to niche and specialist underwriters as the business case demands.

The FAIS Act already requires all the relevant disclosures of markets canvassed and reasons for insurer recommendation.

The criteria for a short-term IIB or MTIB are no different in terms of the scope of activities and skills sets as all deal with every class of business. In most cases it is only the size and complexity of the risks that may differ but the duties and obligations to the client are all relative.

There are many who specialise and only offer one type of product offering in a specialist field, e.g. aviation insurance. This should not make them "tied". (This needs to be kept in mind when responding to the call for information in terms of the bullet points.)

Response to the bullet points – we would like to debate the relevance of these questions in terms of the operational activities of the short-term market:

- Number of product types or categories:
  - Property
  - Casualty (accident and motor)
  - Liability
  - Pecuniary
  - Specialist classes

- The number of sub-sets of above could be in excess of 50 different specific products. It must be remembered that an FSP could deal with all of these categories but may employ different representatives to handle the different classes.

- Number of product suppliers:
  Difficult to enumerate as this could include every local insurer and UMA as well as specialist markets in the international arena. In an ideal world those operating in the high volume general markets will restrict their dealings to one or two markets.

- Remuneration.
  In the short-term segment IIB's and MTIB's earn both commission and or fees. Fees in place of commission is common in the "corporate/large commercial" field where there is a more intense and informed approach to structures of portfolios and where the client is well positioned to make informed financial and risk decisions. The basis of earning a fee or commission should not play a role in determining the classification of the short-term broker.

- Use of designation:
  We would want to debate the rationale behind the categorisation of IIBs and MTIBs. (refer comments in Proposal K above). The FAIS Act and TCF clearly and adequately set out the rules of engagement. The risks and consequences to a client are as severe and relative irrespective of size of the business.

</M>

Proposal N:
Criteria for IFAs to be free of product supplier influence.

Comment:
<N>
In terms of the criteria set out we cannot see that there will be many, if any, IIBs in the industry.

This notion goes to the heart of the traditional short-term intermediary model and needs clarification and further consideration.

We disagree that an intermediary agreement or a binder agreement creates supplier influence per se. In instances where it could create conflict of interest, such circumstances should be managed through appropriate disclosures and other regulatory controls.

</N>

Proposal O:
Status disclosures to be made by IFAs.

Comment:
<O>
The disclosures are onerous and we question the rationale behind these requirements which appear impractical and unnecessary. This needs further debate.

</O>

Proposal P:
Criteria for multi-tied advisers.

Comment:
<P>
Whether an IIB or MTIB, both provide advice (the same) on products of more than one provider. The requirement of a motivation to the Regulator for the preference of one product provider over the other is unnecessary and perceived as being against the principles of free market enterprise.

Commissions are capped, the definition of commission is very specific and it we question how favouring one provider over another could influence any conflict of interest to, or be to the detriment of the client.

“The role of the broker (large or small) is to scan the market, match clients with insurers who have the skill, capacity, risk appetite and financial strength to underwrite the risk, and then assist the client in selecting from competing offers.”

We cannot accept that the Regulator will have the power to "direct that the adviser either change its relationship with the product providers…" The FAIS General Code of Conduct gives the Regulator the power to Act in the event of there being improper practice or a breach of the Code / Act.

</P>

Proposal Q:
Status disclosures to be made by multi-tied advisers.

Comment:
<Q>
The requirements of this proposal are onerous and create a further level of costly disclosure and administration. We question the benefit that it will have on the client and in particular the personal

lines client when making a decision as to what insurance product to purchase.

The word "tied" (relationship) infers that because the MTIB sells an insurer's product that the MTIB has an allegiance to that entity and which will predominate over that of the clients interest? This is not so.
</Q>

Proposal R:
Criteria for tied advisers.

Comment:
<R>
It is likely that this could support further growth of the TIA which will necessitate equivalence of reward.

Caution should be exercised where two entities in the same group operate at arms length from and compete with each other. Should the TIA be allowed to operate across the group in such instance?

</R>

Proposal S:
Status disclosures to be made by tied advisers.

Comment:
<S>
No comment**.**

</S>

Proposal T:
Criteria for financial planners.

Comment:
<T>
N/A to short-term.

</T>

Proposal U:
Status disclosures to be made by financial planners.

Comment:
<U>
N/A to short-term.

</U>

Proposal V:
Insurer tied advisers may no longer provide advice or services in relation to another insurer's products.

Comment:
<V>
N/A to short-term.
</V>

Proposal W:
"Juristic representatives" to be disallowed from providing financial advice.

Comment:
<W>
There is acceptance in principle for the proposal. However there appear to be numerous different models in play and a focussed conversation with all interested parties on this subject so as to better understand and be better informed is recommended.

Two new terms are introduced in this section "Juristic intermediary"(adviser firm) and "Juristic entity" (in respect of a product supplier) that both look to the common use of the words which in addition to "Juristic representative" (that has a specific meaning within the regulations) have caused some confusion and uncertainty

Non-advice selling model. It could well be, for example, that an FSP employs the services of an outbound call centre, which is aligned to it as a "juristic representative" (JR) to sell on its behalf but with the sale detail being "factual information and script based" where there is no interaction with regard to advice. There would be no conflict of interest in this model which should be allowed.

We recommend that a reasonable timeline be given for client education and "conversion" to the principle FSP.

</W>

Proposal X:
Standards for juristic intermediaries (adviser firms).

Comment:
<X>
Our contention that the choice of being "one and one only" adviser type should not apply to brokers in the Short-term segment as has been set out in K above.

Furthermore, if it is envisaged that individual advisers, as members of a juristic intermediary that is an independent insurance broker, can under some circumstances be multi-tied brokers provided appropriate client disclosures are made, then we further contend that the same disclosure principles should be applied but without the need for selection of adviser type by the adviser firm. We believe the requirements in place under the FAIS Act already provide for this and in need, can be reinforced.

The final paragraph of proposal X notes that *"an individual adviser acting as a representative of either an independent or a multi-tied advice firm, may not be limited to the products of one product*

supplier…" Dependent upon a clearer understanding of the Regulator's intentions and clarity of the practical implications of the proposed definitions, this would seriously frustrate elements of Short-term business.

By way of example, it is not uncommon for a broker to offer specialist / niche products, e.g. Environmental Impairment Liability, amongst a wide range of other cover types where there is a single market available for this type of cover. By placing cover with this single market, it could be held that the employed adviser is "tied" to that market – but (even if it could be motivated as being "tied" for that product) it should not affect the independence (or multi-tied relationships) of the adviser firm for all types of business.

In this example the skills required are of a specialist nature and could well be that only one representative has same – this individual representative should not be precluded from acting on behalf of the firm for other cover types. There are many such "product specialists" across the spectrum of short-term commercial and corporate lines.

We agree that should an adviser firm not have these skills amongst its employed advisers and brings in a third party adviser firm (FSP) to provide advice on that specialist product such advice should be under that separate adviser's (FSP) licence.

</X>

Proposal Y:
Advisers may not act as representatives of more than one juristic intermediary (adviser firm).

Comment:
<Y>
We need clarity on the definition of "adviser firm" as, for example, within large financial institutional organisations where they may have different operating divisions all of whom operate independently of each other and all of whom could have JRs each involved with their own product range and then also cross selling. Does the name of the institution count as the "firm"?

There is also the case in which there are two FSPs offering a different range of products (e.g. long-term and short-term) in one group. Should a representative of one FSP, being correctly qualified and licenced, not also be able to be a representative of the other?

</Y>

Proposal Z:
Restricted outsourcing to financial advisers.

Comment:
<Z>
We assume that the Binder Regulations and Outsource Directive 159.A.i are deemed to fall within the statement "other than in the case of specific identified and regulated functions".

In our view these are very good pieces of legislation that have already had a significant effect on the standardisation of outsourcing and outsourcing contracting and practices have already improved significantly. It is suggested that more time be allowed for the requirements of the outsource directive and the binder regulations to settle in before legislating on a more granular basis.

</Z>

Proposal AA:
Certain functions permitted to be outsourced to financial advisers.

Comment:
<AA>
In addition to the details stated in the proposal it must be noted that in order for a broker to issue a policy they need to have an IT platform to capture and manage the data. The preparation and in particular the dispatch of policy wordings, schedules etc. is a further cost to the broker as there are many clients who will not accept these documents by way of electronic medium. An average personal lines policy could contain up to 25 pages and a commercial policy in excess of 70 pages.

The activity will also include the ongoing service related administration and schedules.

Other outsourced functions not being Binder functions:

- Claims handling and administration where there is no discretion to commit the insurer to Risk.
- Broker doing data capture without any discretionary mandate directly onto insurer system which would ordinarily have had to be done by the insurer.
- Premium collection.

</AA>

Proposal BB:
Product supplier responsibility for tied advisers.

Comment:
<BB>
No comment

</BB>

Proposal CC:
Product supplier responsibility for multi-tied advisers.

Comment:
<CC>
This assumes that the product providers have the necessary skills and experience to have oversight of the MTIB activities and are capable of objectively assessing the validity and appropriateness of the MTIB advice, irrespective of the limitations pertaining to their own product scope and extent of cover.

It will be essential to segment advice into, judgemental (part of client advice and services) to that of product information where the product provider should be expected to exercise some level of control.

It would be unreasonable and very difficult for a product provider to have oversight of a MTIB's "judgemental" advice, as by monitoring this the insurer may get an unfair insight into the MTIB's value proposition, competitive edge and competitor solutions. This could create an untenable anti-competitive and conflicted situation.

The extensive monitoring or "policing" required of the product provider over the broker may infringe

the broker's freedom to trade and in effect have the effect of influencing the broker. In addition, where the broker has an appointed Compliance Officer, why the need for further monitoring and micro-managing by the product provider?

The TCF regulation should influence this and should be allowed to bed down rather than creating of additional and costly infrastructures.

What is the value add to the client?

</CC>

Proposal DD:
Product supplier responsibility for IFAs.

Comment:
<DD>
No comment.

</DD>

Proposal EE:
Product supplier responsibility for non-advice sales execution.

Comment:
<EE>
We welcome this.

</EE>

Proposal FF:
General product supplier responsibilities in relation to receiving and providing customer related data.

Comment:
<FF>
We support the principle of protection of client information and the sharing of material data with the insurer/s as it pertains to the contract of insurance.

The Binder Regulations and Outsource Agreements clearly note the data sharing requirements on brokers and we encourage enforcement of these regulations by insurers and compliance by brokers.

</FF>

Proposal GG:
Ownership structures to be reviewed to assess conflicts of interest.

Comment:
<GG>

No comment**.**

</GG>

Proposal HH:
General disclosure standards in relation to fees or other remuneration.

Comment:
<HH>
We support the bullet points in the introduction and proposal. However, the last bullet in the introduction (remuneration structures) could be deemed to be anti-competitive, in particular where the commission structure is substituted by the agreement with the client of a fee structure. (Similarly refer to bullet three of the proposal where the same principle applies.)

</HH>

Proposal II:
Standards for financial planning / risk planning fees.

Comment:
<II>
We support that consent to any fee and or any charges must be obtained from the client. However, in the Short-term environment, it may not always be possible to establish the final quantum of any such fee until the costs of the product being sourced are finalised.

Caution needs to be exercised in trying to tar the varied scope of fees with the same brush by issuing guidelines. (This is especially true given that a major factor in setting the level of the fee could be considerations around the certainty that they will indeed be paid, given the fact that consumers are likely to be allowed to exercise choice in this regard.) What methodology will inform these guidelines?

The fee has to be negotiated and accepted by the client – why then the need to place further oversight on this issue?

</II>

Proposal JJ:
Standards for up-front and ongoing product advice fees.

Comment:
<JJ>
The challenge will be to properly define generic product type advice that is an integral part of judgmental advice, provided before insurer selection and engagement, from factual supplier product information.

Limitations on the extent to which advice fees may vary between product types – this should not be prescribed as the coverage, risk profiling and fulfilment may be very different.

Product provider to monitor advice fees - insurers should not be required to monitor "advice" but only factual product information provided about their products hence insurers should not be required to

monitor advice fees - also refer to comments in CC. We do not believe that they have the skills or personnel to carry out this.

The issue of advice fees is a specific arrangement between the client and adviser and we cannot accept that remuneration for these activities can be prescribed or fit into a set of guidelines. The range and diversity of products and advice will be vast and we would suggest caution in trying to get to and prescribe such “safe haven” parameters. There is also the danger that fees will be charged up to these levels without proper substantiation.

One of the risks that the broker carries is where the advice fee is agreed up front with the prospective client and where the broker is not appointed, but its’ IP is used and where the client then refuses to pay the fee. This is likely to create additional cost and complexity to the broker’s costing and administration models.

</JJ>

Proposal KK:
Additional standards for ongoing advice fees.

Comment:
<KK>
Separation will be extremely difficult and this will need further discussion. We have no global models to guide us in this regard.

</KK>

Proposal LL:
Product suppliers to facilitate advice fees.

Comment:
<LL>
No comment**.**

</LL>

Proposal MM:
Remuneration for selling and servicing investment products.

Comment:
<MM>
N/A to short-term.

</MM>

Proposal NN:
Remuneration for selling and servicing life risk policies – mix of up-front commission and as-and-when service fees.

Comment:
<NN>
N/A to short-term.

</NN>

Proposal OO:
Product supplier commission prohibited on replacement life risk policies.

Comment:
<OO>
N/A to short term.

</OO>

Proposal PP:
Commission regulation anomalies on "legacy" insurance policies to be addressed.

Comment:
<PP>
N/A to short-term.

</PP>

Proposal QQ:
Conflicted remuneration on retirement annuity policies to be addressed.

Comment:
<QQ>
N/A to short-term.

</QQ>

Proposal RR:
Equivalence of reward to be reviewed.

Comment:
<RR>
We support the principle that this should be investigated in the short-term sector as it relates to the fully tied agent of the insurer.

</RR>

Proposal SS:

Standards for remuneration arrangements between juristic intermediaries (adviser firms) and their individual advisers.

Comment:
<SS>
N/A to short-term**.**

</SS>

Proposal TT:
Special remuneration dispensation for the low income market.

Comment:
<TT>
For a variety of reasons it is likely that the dispensation would have to apply only to specifically designed policies irrespective of to whom they are sold. This is generally not a market in which the short-term broker plays due to the very low level of premium and complexities around premium collection. However we would welcome further discussion on this subject in order to assess whether there could be a place for the broker with a special dispensation on remuneration. Technical aspects such as the transition of a client from a low income to a middle income during the lifetime of a product would need to be clarified.

</TT>

Proposal UU:
Remuneration for selling and servicing short-term insurance policies.

Comment:
<UU>
The review of remuneration paid by insurers will require extensive research to arrive at accurate and fair levels and we would welcome being a party to this exercise.

A challenge will be to avoid the "consumer / policyholder confusion" that goes hand in hand with the disclosure of many tranches of remuneration and we question whether the time and added cost to the insurer and broker versus the end result and understanding by the client will add any value to the process.

</UU>

Proposal VV:
Conditions for short-term insurance cover cancellations.

Comment:
<VV>
A broker cannot cancel a policy without the prior approval of the client.

Currently insurers are obliged to inform the FSB of cancellation of "books" of business (Directive 151.A.i) and to ensure that each client has been made aware of the fact of the cancellation.

The contract of insurance between insurer and client is governed by the terms and conditions of the policy wording. The majority of personal lines policies are "true monthly" policies and therefore contractually and technically expire at the end of each month.

The 60 day proposal will change the contractual terms of the policy and could well present some difficulties to insurers, who may not want to continue with certain clients and could lead to abuse by clients.

Is it intended that the 60 day proposal will apply even if premiums cease?

</VV>

Proposal WW:
Remuneration for direct non-advice sales execution.

Comment:
<WW>
We welcome this.

</WW>

Proposal XX:
Remuneration for referrals, leads and product aggregation and comparison services.

Comment:
<XX>
We agree with the principle.

Refer to comments made in Proposal I.

Cognisance must be taken of the practice mainly in the "specialist classes" (e.g. aviation) where a general broker may "employ" the services of a specialist broker to place an aviation portfolio, with a sharing of the commission within the maximums as allowed by the Short-term Insurance Act.

</XX>

Proposal YY:
Remuneration for investment platform administration.

Comment:
<YY>
N/A for short-term.

</YY>

Proposal ZZ:
Binder fees payable to multi-tied intermediaries to be capped.

Comment:

<ZZ>

The Binder Regulations state that in regard to remuneration *"6.4.(1) An insurer may pay a binder holder a fee for the services rendered under the binder agreement, which fee must be reasonably commensurate with the actual costs of the binder holder associated with rendering services under the binder agreement, with allowance for a reasonable rate of return for the binder holder."*

We do not support the capping of binder fees as we maintain that this is a prudential business issue which will vary from Binder Holder (BH) to Binder Holder depending on the activities and level of sophistication and efficiencies employed. In time this will find its appropriate levels through a process of monitoring, abuse, correction and awareness.

The concern is that all BHs are being tarred with the same brush and that the "cap" will become the norm, as it has been with the capped commission, irrespective of value added and that any benefit in the "reduction" of a fee will not immediately benefit the client.

The losers will undoubtedly be the clients of binder holders who employ skilled practitioners with a sophisticated IT and Underwriting and Claims support infrastructure and whose products add more value to the clients and are operated on a more sustainable basis than those with a lesser service delivery ethic. It could well be that these binder holders may have to reduce their levels of efficiency of delivery and with the potential of having to lay off staff.

The BH with a more favourable loss ratio and where the fee is based on a percentage of the gross premium will have a lower premium base than those with unfavourable loss ratios where the premium base is much higher – the result being that the higher premium attracts a larger fee at the expense of the more efficient BH and the client who pays the higher premium!

The insurers who are accountable for the performance of binders need to enforce and take control of their BHs to ensure that the fees are activity based and that those who provide efficient service delivery are fairly remunerated.

A large component of business transacted in the binder space is high volume personal lines business which is hugely competitive, with no barriers (for the client) to exit and therefore the broker providing the best value for money gets the order.

An increase in a binder fee will not increase the premium but be employed to create further efficiencies and by the same token a decrease in the fee due to "capping" will not see a reduction in the premium but will be absorbed by the insurer.

Regarding the proposed capping we would question as to what underlying research and rationale has informed the proposed percentages.

We cannot agree with the comment that "most work is already done by the non-mandated intermediary as part of any act directed towards entering into … for which commission is paid". The "back office" infrastructure of a binder holding broker is very different and far more sophisticated to the broker who may only capture basic policy information and for many who do not data capture but still receive full commission.

Allowance needs to be made for the costs of the infrastructure/administrative and other back office activities that are essential for the running of a binder.

We do however support the principle that a binder holder with a number of binders, with different insurers, but for the same business and same activities, should be earning the same percentage fee.

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Proposal AAA:
Commission cap for credit life insurance schemes "with administrative work" to be removed.

Comment:
<AAA>
N/A to short-term**.**

</AAA>

Proposal BBB:
Outsourcing fees for issuing insurance policy documents.

Comment:
<BBB>
Research needs to be done to assess the fairness or otherwise of the proposed R100 and to ensure that it matches with the principle of "activity based" costing which includes the cost of human capital, management and back office infrastructures. Of importance is to take into account that unique legal contracts are created for each client, irrespective of whether or not the base wording of such contract is the same. A similar comparison of standardised contracts provided by the legal profession would suggest that a fee well in excess of R100 is more appropriate given the potential legal ramifications of issuing an incorrect document.

</BBB>

Proposal CCC:
General standard: No financial interests may be provided by product suppliers to intermediaries unless specifically provided for in the regulatory framework.

Comment:
<CCC>
Given that the wording is broad and seems to restrict the income sources of brokers to products / services regulated by the financial markets regulator, there are considerable concerns around the limiting of freedom of choice.

While we understand what is driving this proposal we have several concerns:

a) We do not believe that it is correct to word the limitation by banning all forms of remuneration unless specifically catered for.
b) We believe that there are "add-ons" that should be allowed to attract reasonable remuneration.
c) We do not think that the regulator should attempt to interfere with issues that may not relate to pure financial service products.

Free market principles should be left to act wherever this is not to the detriment of the client i.e. where the overall costs are not affected adversely.

Does this address what they are trying to address? Further discussion is needed as to the nature of the perceived problem to be addressed and alternative methods of going about this.

In any event this could be circumvented by forming “partnerships” with people providing these services in return for an introductory commission. Since these products are not regulated, this could simply result in increased costs to the customer.

Thus we believe that further discussions around this proposal are necessary.

</CCC>