

The history of why insurance broker business essay



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Govt. of India decided to embark on economic reforms in the 1990s. The command and control economy gradually gave way to market economy in sector after sector, including the financial sector which comprised “ Insurance” sector. Various reforms were initiated in the financial sector. The economy responded positively to the reforms. Competition in the manufacturing sector geared it up to invest in technology, restructure its operations, reduce cost, achieve improved productivity, bring quality of products to international standards. Newspaper Articles started highlighting the success stories of several enterprises in the Open Market Indian Economy to demonstrate what could be achieved in a liberalized market economy.

Along with financial sector reforms, there were many reform measures by the Govt. for the insurance sector. Insurance Sector Reform Measures initiated by the Government were based on the Report of the Malhotra Committee, which submitted its Report in 1994. The main observations of the Malhotra Committee were :

There was hardly any worthwhile competition in the insurance sector;

With progressive reduction in the agency commission structure there was no scope for any well informed or trained career agency organization to emerge;

The only Government Companies in the insurance sector resorted to appointing salaried development officers to sell its insurance covers which resulted in growing staff burden and attendant problems;

The service aspect suffered and customer satisfaction was a casualty.

Insurance consciousness did not percolate and spread.

The Malhotra Committee, therefore, among other things, recommended :

Opening of insurance industry to competition. Apart from making the four operating Government Companies in general insurance autonomous, other private players to be permitted;

Creation of a Regulatory Authority for providing a level playing field to all entities operating in the country;

Development of an efficient and professional marketing structure to spread the message of insurance, improve service and customer satisfaction;

Introduction of Broking Firms who would act as professional intermediaries as in other established markets.

Insurance Regulatory Authority was established as an Interim Regulator in 1996 and became a full-fledged statutory Insurance Regulatory and Development Authority (IRDA) in 1999 with the passing of IRDA Act of 1999 on 19th April 1999.

Thereafter, IRDA enacted various Rules and Regulations and ushered in reforms in insurance sector. One of them is the Insurance Regulatory and Development Authority (Insurance Brokers) Regulations, 2002 w. e. f. 16. 10. 2002. Subsequently, 185 Insurance Brokers have obtained licence from IRDA and have started their broking operations investing huge capital, with the sole purpose of rendering professionalized service to the insurance buyers.

This background will enlighten the readers and the insurance buyers on why they really need to use the services of insurance brokers for purchase of insurance coverages.

Exhibit : Insurance Intermediaries – A Schematic

Key/ Formal Insurance intermediaries include :

Insurance Agents - Primary to insurer's interest (face of insurance company). Cannot represent multiple insurers hence are " tied" to an insurer. Practical training and passing of exam is mandatory and sponsored by one insurer. Discourages switching of insurers. (See ' Annexure A' of the Chapter for details)

Brokers - Primary to insured's interest. Can represent multiple insurers to provide suitable products to the insured. IRDA has formulated regulations governing insurance brokers.

Surveyors and Loss assessors - To examine the claim and assess the actual loss suffered. To submit a report for the consideration of the Insurance Company.

Third Party Administrator - Arises mainly out of managed health care business. Only " companies" registered under the companies act, 1956 are allowed to act as TPA. IRDA is finalizing regulations governing TPAs.

Reinsurance Broker - Link between insurer and reinsurance organizations. Incentivized by the re-insurer for annual treaties and facultative deals.

Co-operatives - Reach in rural areas. Rural populace more comfortable while dealing a co-operatives.

Actuaries - Provides actuarial advice to the management. Assurance to IRDA.

IT System Provider - essential support for all new insurance cos. IT system back bone of the operations.

Rating Agencies - Am Best, Standard and Poors, Moodys.

Any other person assisting and representing an Insurer in any of the following.

Soliciting negotiating, procuring or effectuating an insurance contract or its renewal.

Disseminating information relating to coverage of rates.

Forwarding an insurance application.

Servicing and delivering an insurance policy or contract.

Inspecting a risk.

Setting a premium rate.

Investigating or assessing a claim or loss.

Transacting a matter after effectuation of a contract.

Representing a matter after effectuation of a contract.

Representing or assisting an insurer or other person in any other manner in the transaction of insurance contract.

Servicing a policy or contract.

“ The total intermediation equation has to be right to be a successful insurance company

in the new environment”

Agents and Brokers are independent insurance salesperson who represents particular insurers but also might function as a broker by searching the entire insurance market to place an applicant's coverage to maximize protection and minimize cost. This person is licensed as an agent and a broker.

Developing a long term relationship with an insurance professional is a key step in the development of a business insurance plan. The line that separates the difference between an agent and broker is a blurred one. Both an agent and a broker have the ability to solicit insurance quotes that will adequately protect your business, but the way they go about it is a little different.

Insurance Agents

An agent is a person who has entered into an ' agency contract' with an insurance company for the purpose of selling insurance for that company.

The Insurance Act defines an Insurance Agent as one who is licensed under Section 42 of that Act and is paid by way of commission or otherwise, in

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consideration of his soliciting or procuring insurance business relating to the continuance, renewal or revival of policies of insurance. In other words, insurance agents are insurance professionals that serve as an intermediary between the insurance company and the insured. An agent is not an employee of the insurance company, but rather an independent contractor. The agent, unlike a broker, has the authority to bind coverage (legally obligate the insurance company to provide coverage according to the terms and conditions as bound). As a broad statement of law, an agent's liability to their customers is administrative. That is, agents are only responsible for the timely and accurate processing of forms, premiums and paperwork. Agents have no duty to conduct a thorough examination of your business or to make sure you have appropriate coverage. Rather, it is your obligation to make sure you have purchased needed coverage. An agent that hires more than one person to service their policyholders is called an agency. An agency consists of two or more people, usually a combination of licensed individuals along with support staff. Large agencies may have an agency contract with more than one insurance company. However, keep in mind that an agent is a representative of the insurance company; therefore premium payments made to the agent is equivalent to remitting payment to the insurance company. Agents must successfully pass their state's Property Casualty licensing exam in order to conduct business as an agent.

Types of Agents

Captive/ Tide/ Individual/ Exclusive – An agent who solicits business for placement with the particular insurance company they have an agreement with. These type of agents will sell policies only for that insurer.

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Independent/ Non-Exclusive - An agent who has agency contracts with more than one insurance company. An independent can produce policies from several insurers and offer some comparisons of different insurance policies. These types of agent realize however, no matter which company they use to insure your business, they still represent the insurance company.

Alternate Agents - When the organization acts as an agent.

Absorbed Agents - Agents before the formation of IRDA. Example; earlier agents of LIC

Composite Agents - Agents who are working for both, life and non-life. These agents will have to take licenses separately for both after undergoing the training and clearing IRDA insurance examination for life and general insurance agents.

BROKER

A broker is a person or firm that has permission to seek insurance quotations for an insured (client) or prospective client. A broker is not an insurance company employee. As a representative for the insured, brokers will approach several insurance companies in an attempt provide quotations and coverage to adequately insure the client's exposures. Brokers are required to have a broker's license which typically means the broker will have more education or experience than an agent.

Duties of a broker - They have a higher duty, in most states, to their clients.

Brokers have the duty to analyze a business and secure correct and adequate coverage for the business which is a higher duty than the pure administrative duty of the agent. However, this expertise comes at a price. Brokers typically charge an administrative fee or premium payments are higher when purchased through a broker.

The broker will ascertain the client's needs, gather information and submit the information to several insurance companies.

Brokers do not have the authority to bind coverage. They present the information and if the insurance company agrees, the insurance company will bind the coverage.

Once the coverage is bound, the insurance company, not the broker, will issue evidence of coverage in the form of a binder. A binder is an insurance summary that outlines the coverage limits, terms, conditions and premiums that the company agrees to provide.

The broker's fee or commission is built into the insurance premium. The client is fully aware of how much their broker earns as the broker must disclose their commission to and get written consent from their client.

Large insurance brokerage firms have the ability to secure coverage for every type of risk. They tend to compartmentalize the coverage to provide experts in each field of insurance. For example, larger firms have departments to handle aviation risks while their counterpart can handle workers compensation. Smaller businesses may not require the level of compartmentalization and specialization that larger brokerage houses offer.

To that end a smaller brokerage firm or an individual broker may be adequate for their needs. They also have the ability to offer a more personalized service that a small business might prefer.

To become an insurance broker, an individual must successfully pass their state's Property Casualty licensing exam. Both agents and brokers must pass the same licensing exam in order to solicit or sell insurance, but their point of allegiance differs. One represents the client and the other the insurance company.

Why Insurance Broker ?

Insurance broker represents the insurance buyer, and not the insurance company (insurance seller), though the remuneration of insurance broker is paid and borne by the insurance companies. There is no additional cost to the insurance buyer for placing business through insurance broker.

Insurance brokers have been introduced into the Indian market by insurance regulatory and development authority (IRDA) as professionals, who will truly represent and service the interests of insurance buyers.

Insurance brokers have qualified and experienced insurance experts and can buy insurance for their client's at the most competitive premium rate and terms.

Insurance brokers provide a package of services to the insurance buyer, including post-insurance services as well as assisting in submission of claim documents to insurance company. Please see annexure for functions of insurance brokers.

Insurance brokers have to obtain licence from the IRDA before they carry on insurance broking in India and the operations of insurance brokers are monitored and controlled by IRDA a copy of code of conduct prescribed by IRDA for insurance brokers is enclosed.

Insurance brokers are different from insurance agents. Insurance agents represent a given insurance company, and not the insurance buyer. Thus, insurance agents sell the insurance policies of a given insurance company, taking care of the interests of the insurance company (insurance seller), and not of the insurance buyers.

Insurance brokers are professionals and represent the insurance buyers only, and not the insurance company. Insurance broker can place the insurance of his client with any insurance company, in the best interest of the insurance buyer. Thus, the insurance broker is a single window solution for all insurance problems of the insurance buyer with all insurance companies.

Importance of the role of insurance broker in the emerging scenario of 'detriffing' :