



**Adelaide Office**  
176 Fullarton Road  
Dulwich SA 5065  
PO Box 509 Kent Town SA 5071  
Phone: (08) 8291 2300  
Fax: (08) 8333 0318  
DX 426

**Branch Offices:**  
**South Australia**  
CEDUNA  
CLARE  
LOXTON  
MOUNT GAMBIER  
NARACOORTE

PORT LINCOLN  
PORT PIRIE  
TUMEY BAY  
MRYALLA

**Victoria**  
MELBOURNE  
POWELLTOWN  
WARRNAMBOOL  
**Northern Territory**  
DARWIN

**Queensland**  
BRISBANE  
New South Wales  
SYDNEY

MGA INSURANCE BROKERS PTY LTD ABN 29 008 096 277

JRG:sra.com.gov01

17 January 2003

**Registered Mail**

The Secretary  
The Parliamentary Joint Committee  
On Corporations and Financial Services  
Room SG.64  
Parliament House  
CANBERRA ACT 2600



Dear Sir/Madam

**The Disclosure of Commissions on Risk Products and Outsourcing of Services by Underwriters**

MGA Insurance Brokers Pty Ltd is one of Australia's larger insurance broking houses. Our Group will turn over this year approximately \$95M in premiums and currently employs some 140 personnel within our network of 17 offices, which includes regional and rural areas throughout Australia.

We feel that commission disclosure on stand-alone risks (retail products) has been very much misunderstood within the environment in which it has and is being discussed. It would appear to us that not enough research has been conducted to determine the substantial operational differences between the General Insurance and 'Life' Industry, its functions, operations and requirements.

**The Changing Nature of the General Insurance Industry in Australia**

Since the early 80's the majority of Australian insurers (due to shortages of qualified personnel and an unwillingness to provide direct customer service due to costs) have preferred to pass distribution and administration of their various products to intermediaries. In the ensuing years Brokers have shouldered more and more of insurers functions and responsibilities.

Among these:

- Direct client contact.
- Product advice.
- Placing and monitoring of risks.
- Follow up and audit (including policy documentation check).
- Collection of premiums and reconciliation.
- Administration issues during policy currency.
- Payment of claims under insurers authority.
- Maintenance of insurers database.

2....

## **The Disclosure of Commissions on Risk Products and Outsourcing of Services by Underwriters**

---

It is our contention that these services are recognised by Insurers as a transfer of their own responsibilities and as an acknowledgment to intermediaries, our remuneration has been adjusted to compensate accordingly.

Following September 11 and with diminishing industry capacity and consolidations we can only see these responsibilities increasing.

In these circumstances we cannot see why this 'component' is required to be disclosed as part of our remuneration. It is per-se a fee for service by the underwriter.

### **The Impact of the Disclosure Regime**

Our industry is already struggling with the implementation of FSRA. There is serious doubt as to whether we will be able to continue to service retail clients with the additional ramifications of the proposed disclosure regime. It will hurt those it sets out to protect and will lead to a reduction of services, particularly in rural and regional areas.

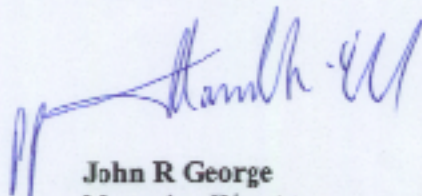
Until recently we were unaware that a Joint Committee on Corporations and Financial Services had been formed by Parliament. Having now had the opportunity to scrutinise the recommendations in respect of 'retail products', we are at a loss to understand why they were not incorporated in the draft legislation.

We believe that the current disclosure regime contained within the Insurance (Agent and Brokers) Act 1984 provides more than adequate disclosure to the insuring public. These disclosure provisions should be continued within the new legislation.

To any members of the Committee I would invite you to come to our premises and see for yourselves the tasks that are being undertaken by our professional and support staff. You will also witness the results of the significant capital works that we have undertaken on technology to improve our services to the insurers and our customers.

I am available at any time to discuss issues in respect to this subject and/or answer any questions.

Yours faithfully



**John R George**  
Managing Director