

MBIE Discussion document April 2021

Treatment of intermediaries under the new regime for the conduct of financial institutions

New Zealand Underwriting Agencies Council (inc) submission

Executive Summary

The NZUAC represents the interests of its member businesses who offer insurance risk cover solutions across a diverse wide range of commercial, recreational, property, consumer & liability situations.

Until the recent formation of the NZUAC, Underwriting Agencies activity has been generally low profile to many segments of the market, other than those commercially engaged with them, such as Brokers & Insurers.

Member Agencies, operate & conduct their businesses under Delegated Authority of the security provider which is typically a NZ or offshore Insurance company. The insurance product(s) are then offered to Insurance Brokers or offered directly to Consumers. Underwriting Agencies (UA's) do not provide advice. UA's are an intermediary in the supply chain between the Underwriter and the consumer or enterprise electing to insure a risk.

For context UAs are present in many western economies and in NZ represent circa 10% of the total GWP revenue of the insurance industry or circa \$700m. In Australia UAs represent slightly less than 25% of the insurance GWP revenue. We expect NZ to follow the percentage share growth trend of Australia. In other jurisdictions UAs are typically referenced as MGA's or Master General Agents.

Associations that represent MGAs or underwriting agencies in specific regions today include:

- Managing General Agents' Association (MGAA) in the UK, which was formed in 2011
- American Association of Managing General Agents (AAMGA), which was established in 1926 and has since merged with the National Association of Professional Surplus Lines Offices (NAPSLO) to form the Wholesale & Specialty Insurance Association (WSIA)
- Canadian Managing General Agents (CAMGA), a relatively new association formed in 2017
- Underwriting Agencies Council (UAC), based in Australia and formed in 1998

NZUAC are generally in agreement with the intentions & objectives of the amendment bill however we have a few comments, intended to clarify, simplify and underwrite efficiency of the insurance segment of the bill specifically.

1. Delegated Authority

UAs are able to offer a diverse range of flexible, contemporary and innovative insurance solutions which are underwritten by insurance companies with the requisite security in place according to the NZ regulations.

An MGA is an agency whose primary function and focus is the provision of underwriting services and whose primary fiduciary duty is to its Insurer principal.

An underwriting agency's functions can include binding coverage, underwriting and pricing, settling claims, and appointing retail agents in a certain region, all of which are typically carried out by insurers.

At its core, the underwriting agency manages all or part of the insurance business of an insurer and acts as an agent for the insurer.

Insurers consider appointing an underwriting agent as companies can pass time-consuming and complicated tasks to an outside entity that already has the knowledge to address them.

Underwriting agencies tend to deal in lines of where specialised expertise is needed to underwrite policies, though they can be active in any line of insurance, and work with all types of insurers.

If an insurer wants to explore a specialty line of business, but does not want to take on the risks or uncertainty of doing so, they can turn to an underwriting agency to offer up that expertise, and give the underwriting agency the authority to underwrite and issue specialty policies because they are already familiar with the risks.

Underwriting agencies can also write business in geographically isolated areas where insurers do not want to open an office. A small town or rural region might not warrant the opening of a branch for an insurer, but working with an underwriting agency in that area provides the company with access to new customers without spending money on staff or rent.

2. Control of intermediaries

The principles of Insurance Law Reform Act is the basis with which the lead Underwriter (using its delegated authority) should control their intermediaries. The act already addresses payment protocols, meaning payment made is effectively guaranteed by the lead Underwriter. Issues of performance & complaint are similarly already positioned, protecting the Consumer through the same rule relating to payment.

3. Consumers are protected

UAs adopt the Fair Insurance Code & the lead Underwriters include a review of this & other audit references in reviewing UA performance. UAs are not the Financial institution; the lead Underwriter is. Whether the consumer encounters an issue of performance of any type, they have available to them remedies via the UA, Broker, Lead Underwriter and the Insurance Ombudsman.

In conclusion

UAs in NZ are a large & growing insurance options choice & distribution channel in NZ. Delegated authority from an NZUAC perspective removes the need for UAs to be treated as anything other than an arm's length agent of the lead underwriter therefore affording consumers the protection intended by the amendment bill.

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