



Insurance Brokers Disputes Ltd

Annual Report

January 1, 2003 – December 31, 2003

**Insurance Brokers Disputes Ltd
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EXECUTIVE SUMMARY

Written complaints: 108

The number of written complaints to Insurance Brokers Disputes (IBD) continues to fall, a trend consistent with the previous two years. A decline in the number of written complaints may be attributed to greater broker vigilance in the internal dispute resolution (IDR) process and a desire to avoid having a formal complaint registered. The drop in the number of complaints is also due to the General Manager's early intervention enabling disputes to be resolved before a formal complaint is lodged.

Calls to toll-free number: 4296

An average of 358 calls per month (compared to 336 in 2002) was recorded. These involved existing complaints, telephone enquiries and complaints, general insurance enquiries, broker referrals about hard-to-place business or specific risks, referrals to other complaints schemes and relevant bodies and general inquiries regarding the services provided by IBD.

Complaints Demography:

- 59% of the complainants were in the 30-50 years age group (in comparison to 60% in 2002); 27% were aged between 50-70, 10% of complainants were aged between 20-30 and only 4 complainants were over 70 years old.
- A total of 11 (10%) complaints were received from people with English as a second language. This demonstrates that IBD is not well known to the very diverse range of ethnic communities. Resources need to be made available to better spread knowledge and understanding of external dispute resolution (EDR) and IBD.
- 51% of complaints were received from small business operations (compared to 50% in 2002), with the other half being complaints lodged by domestic consumers. Of the small business complaints, a significant number were from retailers and tradespeople.

Where complainants obtained information about IBD:

In 2003, there was an improvement in the total number of brokers informing complainants of their right to have matters determined by IBD (34% as opposed to 28% in 2002). Nevertheless, there is still cause for concern that most complainants

learn of the availability of this facility through external sources such as consumer organisations, other EDR schemes and telephone directories.

Timeframes:

- 67% of complainants wait for three months and longer after the claim/incident (the cause of the complaint) before contacting IBD to lodge a complaint in writing.
- 42% of brokers responded to written complaints to IBD within one week.

Classes of insurance:

61% of the total complaints received related in some manner to small business. It is important to note that the current monetary limit to deal with such complaints is limited to \$5000 (unless brokers agree to waive the limit). This has caused many complaints to be dismissed.

Nature of complaint:

- 28% of complaints related to a cancellation and refund. Many of these disputes arose from a lack of understanding of policy cancellation procedures.
- 21% of complaints related to problems with renewal of policies (in comparison to 26% in 2002).
- Where premium funding was involved, it appears that many consumers were not aware that they had in fact entered into two different contracts.

Value of claims:

32% of claims involved amounts under \$1000. 28% involved amounts between \$1001 and \$5000. 13% involved amounts between \$5001 and \$10,000. 13% involved claim amounts between \$10,001 and \$25,000. 7% involved amounts between \$25,001 and \$50,000.

Outcome of written complaints:

42% of complaints were conciliated by the General Manager (compared to 57% in 2002). 28% of complaints were determined by the Referee (an increase from 20% in the previous year).

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Pursuant to the terms of reference of Insurance Brokers Disputes Limited (IBD) the following is the Annual Report covering the period January 1, 2003, to December 31, 2003.

INTRODUCTION

Insurance Brokers Disputes Limited (IBD) is a national complaint-handling scheme. The facility was formerly known as the Insurance Brokers Dispute Facility and was first established in 1996. IBD has been approved by the Australian Securities and Investments Commission (ASIC) and since January 1, 2003, has operated as a public company limited by guarantee.

IBD is a free consumer service designed to handle complaints and help resolve problems between insurance brokers, underwriting agents and other insurance intermediaries and their clients. IBD provides support to help resolve problems quickly and efficiently, without having to resort to costly litigation.

Complaints against insurance companies are handled by the Insurance Enquiries and Complaints Limited (IEC).

Any retail client who has a problem with his or her insurance broker or intermediary concerning a general or life insurance product can contact IBD. "Retail client" includes any small business operation, which employs less than 100 people if it is or includes being a manufacturer of goods, otherwise 20 people.

IBD covers a range of products including motor vehicle, home buildings and contents, sickness and accident, life, consumer credit, travel, personal and domestic property.

Some cases, such as those already involved in legal proceedings, cannot be handled by IBD, nor does IBD handle disputes involving claims of more than \$50,000, except where the insurance broker or financial service provider and its professional indemnity insurer have agreed to waive this limit.

Most insurance broking firms subscribe to IBD, including most members of the National Insurance Brokers Association of Australia (NIBA).

A consumer with a problem should initially discuss it with the complaints or customer relations officer of the insurance broker or financial service provider. Under the scheme, participants are required to have internal systems to monitor and resolve complaints. They must agree to make a decision about a complaint quickly, usually within 20 working days.

If the consumer is still not satisfied, IBD's General Manager is there to assist. Generally problems can be fixed with a single telephone call. If the matter cannot be resolved after 20 working days, it may be passed on to IBD's Referee.

The Referee, who is a highly experienced legal practitioner, issues a determination within 20 working days. Under IBD Terms of Reference, insurance brokers and financial service providers must abide by decisions made by the Referee, although they are not binding on the consumer.

IBD is funded by its members who subscribe to the scheme, in order to provide a service which is free of charge to consumers.

Board of Directors

The Board of Directors is the overseeing body of IBD. The board represents consumers and brokers and consists of two consumer representatives, two industry representatives and one independent chairperson. The board oversees the operation of IBD and the General Insurance Brokers Code of Practice.

Industry representatives are appointed in consultation with the National Insurance Brokers Association, while consumer representatives are appointed in consultation with the wider consumer movement as well as the Consumers Federation of Australia.

Richard Smith

Age: 63

Chairman

Experience: Retired. Formerly Chief Manager General Insurance with the Australian Prudential Regulation Authority and Deputy Commissioner General Insurance with the Insurance and Superannuation Commission. Mr Smith was also a Member of the Executive Committee of the International Association of Insurance Supervisors.

Name: Robert Elder

Age: 66

Industry Representative

Experience: More than 23 years' experience as a company director. Co-founder and former Managing Director of IPG Insurance Brokers. Director and General Manager of AIBA. A former President of the National Insurance Brokers Association of Australia, he was a NIBA board member for 10 years.

Jenni Mack

Age: 44

Consumer Representative

Experience: More than 10 years' experience in the consumer movement. Director of the Financial Industry Complaints Service, she also represents the community on the Judicial Commission of NSW. Member of the conduct panel of the Migration Agents Registration Authority and involved with the Financial Services Consumer Policy Centre at the University of New South Wales.

Noel Pettersen

Age: 54

Industry Representative

Experience: More than 11 years' experience as a company director. Chief Executive Officer of the National Insurance Brokers Association of Australia. Former ministerial adviser and public relations consultant. Past Chairman of the Council of International Insurance Broker Associations. Executive Council member of the World Federation of Insurance Intermediaries.

Peter Gartlan

Age: 41

Consumer Representative

Experience: 16 years' experience as a company director. Twenty-one years' experience as a financial counsellor, human services co-ordinator and youth worker in casework and policy reform. Currently employed as a financial counsellor at Eastern Access Community. Member of the Financial and Consumer Rights Council. Past board member of philanthropic trusts and consumer bodies.

Meetings of Board of Directors

The number of directors' meetings held during the financial year and the number of meetings attended by each director are:

	Held	Attended
Mr Richard Smith	5	5
Mr Noel Pettersen	5	5
Mr Robert Elder	5	5
Mr Peter Gartlan	5	5
Ms Jenni Mack	5	5

1. Report by the Chairman, Mr Richard Smith

The IBD Board met five times during 2003, had one telephone hook-up and held its inaugural General Meeting on 26 February 2003.

ISSUES DURING 2003

One of the first issues dealt with by the Board was the scope of matters covered by IBD in relation to small business policies. Initially the scope of matters which IBD could handle was less than the former Insurance Brokers Disputes Facility's mandate. This came about basically for two reasons. First, because of a narrow definition of "retail client" in the Corporations Act and secondly, the refusal of professional indemnity insurers to provide cover if the scope of matters dealt with by IBD exceeded the Corporations Act definition.

IBD considered this state of affairs to be unacceptable and as an interim measure decided to extend the scope of the service to include small business policies up to \$5000, being the minimum excess applicable in general to small business professional indemnity policies. Thus the exposure of professional indemnity insurers was not increased, but this small business class was brought within the scope of matters, which IBD could deal with. While some insurance brokers resisted this decision, IBD felt that it could not credibly exclude such policies based on past experience, which indicated a significant number of complaints, fell into this category.

ASIC was informed of IBD's deliberations and decision on this matter. In due course the policy adopted will be reviewed in the light of experience with small business policies.

A second matter of some significance is IBD's application to ASIC for approval of its Terms of Reference and Code of Practice, including the abovementioned definition of retail general insurance. IBD wrote to ASIC on 5 June 2003 requesting such approval but ASIC responded on 15 September 2003 requesting that IBD consult more widely with its members before approval can proceed. This is a matter to which IBD will attend to as soon as resources and other commitments permit.

During the year Daniela Kirchlinde, who has been General Manager since inception of the schemes in 1996, went on maternity leave for 12 months. A replacement General Manager, Khaldoun Hajaj, took over on 1 October 2003.

In addition to learning about IBD's systems and the technicalities of insurance broker matters, our new General Manager has had the considerable extra burden of coping with an extremely heavy workload relating to Financial Services Reform Act requirements. The enquiry rate from existing and potential new members has been very high. As a result IBD had no option but to engage an extra person as administrative support.

The additional pressures on IBD have highlighted the problems of running a one-person office.

In response to the issues raised above, the new General Manager has considered the possibility of sharing resources with other external disputes resolution schemes. To this end, it has been agreed that this facility will rent space from the Financial Industry Complaints Service (FICS). This move is likely to result in significant improvement to the overall service delivery of this facility.

Another factor that contributed to an increasing workload was the decision referred to in last year's Annual Report to accept underwriting agents as members of IBD.

In response to the FSRA reforms, a considerable number of underwriting agents sought membership of IBD. Both locally and overseas owned underwriting agents can be quite different in character and structure to insurance brokers, but in some cases insurance brokers are also underwriting agents. So from the public's perspective, there may be little difference.

In accepting underwriting agents as new members, IBD sought to protect its own position by requiring all underwriting agent members to have appropriate professional indemnity cover with an authorised insurer.

As members of IBD will know from the 2004 membership renewal letter, the Board decided that the old flat fee structure whereby all members large and small paid the same subscription was neither fair nor sustainable. Obviously larger members on the whole derive larger benefits from the dispute handling service.

Thus a scaled subscription structure was introduced with a maximum of \$1760 for larger broker members. Given these changes and a larger number of underwriting agent members than was first anticipated, the overall effect on IBD budget for 2004 is still evolving. One of the tasks for 2004 will be to take these changes into account with a view to developing a stable and equitable approach to future budgets. In the meantime all changes are being undertaken with a close eye to the financial implications. The Board has not found this an easy task and will welcome a more stable environment when the current financial legislative reforms have settled down.

In summary, IBD Board has the following matters on its 2004 agenda:

- Definition of small business scope needs further consideration in light of experience.
- ASIC's approval of new Terms of Reference and Code of Practice to be pursued.
- Need for front and back office support in view of increased workloads.
- Move of premises and co-ordination of operations with another EDR service with a view to operating more efficiently.
- Implications of new members, especially underwriting agents.
- Sliding scale subscription rates.
- Budgetary implications of the above.

2. Report from the Referee, Mr David Letcher

This is the seventh Annual Report which I am privileged to write in respect of my activities as Referee for IBD.

The year has seen the build-up to the substantial changes in regulation. While it may be difficult to see exactly how all these changes will affect the brokers in the day-to-day running of a broking business, I am sure we can all agree that matters will not become more simple.

It is my custom in an annual report to refer to problems which appear to arise frequently in disputes referred to me, and once again I therefore draw the attention of brokers to several problem areas:

UNAUTHORISED FOREIGN INSURERS

During the year IBD received an increasing number of enquiries concerning the reliability and status of an unauthorised foreign insurance company. IBD cannot comment on the reliability or financial

statement of any such insurer but can advise a consumer of the risks which might be incurred in dealing with such an insurer other than a domestic insurer.

It is usually a broker or an underwriting agent who has recommended an unauthorised foreign insurer to an insured. The Referee considers it important that such an intermediary should draw the attention of the insured to problems, which might arise. Not only should the intermediary advise the insured in writing that coverage is being placed with an unauthorised insurer and obtain a written acknowledgement by the insured that he understands this is the case, but the intermediary should also give some formal advice to an insured about the difficulties that can occur if it is necessary to issue proceedings against a foreign insurer and then attempt to enforce a judgement.

It is also relevant that the IEC Complaints Resolution Scheme does not cover unauthorised foreign insurers.

This Referee is of the opinion that whatever may be the technical requirements of the new legislation now in force, the intention of the former Section 34 of the Insurance (Agents and Brokers) Act, now repealed, is clear and is good practice. This Referee will therefore expect all intermediaries who place cover with an unauthorised foreign insurer to take the following steps:

1. Advise the insured in writing that cover is being effected with an unauthorised insurer.
2. Obtain a written signed acknowledgment by the insured that he understands this.
3. Provide written advice to the insured concerning the possibility that there may be difficulties in issuing proceedings against such insurers and enforcing judgements.
4. It would also be appropriate to point out that there may be administrative difficulties in dealing with a foreign insurer such as an inability to easily discuss claims with the insurer, difficulties and delays in correspondence and also possibly language problems.
5. The intermediary should also point out that the IEC scheme does not cover matters involving these insurers.

FEES/COMMISSION/BROKERAGE

There have been several cases in this past year where insureds have had difficulty in understanding the position concerning commission and fees where a policy has been cancelled mid-term. Most brokers show a fee on the face of the Tax Invoice/Cover Note/Invitation to Renew, but it is not clear in most cases that in addition there is a commission payable to the broker.

Where the policy is subsequently cancelled mid-term and the broker for one reason or another is not prepared to make a refund of his commission or pro rata amount of commission, many insureds find this difficult to understand and initially believe that there has been a mistake in the calculation of the refund due to them.

Further, this can be exacerbated by the failure of insureds to realise that insurers do not necessarily make an exact pro rata refund but may require an initial payment out of some particular percentage of the premium before calculating a refund.

These matters cause great dissatisfaction among insureds. Whether or not a commission or pro rata amount of a commission should be repayable may depend on the circumstances, but brokers should note the potential for dispute. The question of disclosure of commission has always been a

contentious one and in general terms such disclosure is still not required. However, brokers should realise that IBD will not necessarily interpret ambiguity in contract terms in favour of the broker.

This Referee is firmly of the opinion that any notice by a broker set out in the tax invoice or other documents to an insured concerning the repayment of fees/commissions/ brokerage on cancellation must be very clear and must not allow any possible misunderstanding about what the terms “fee” or “brokerage” mean. Nor must there be any confusion between the fee payable and shown clearly on the tax invoice and any additional commission payable to the broker by the insurer.

Notices on tax invoices concerning refunds payable on cancellation should very clearly state the fees to which they refer. Failure to refer to the broker’s commission as distinct from the “fee” shown on the face of the tax invoice may result in this Referee forming the opinion that the broker has not adequately informed the insured about a very important factor relating to cancellation.

PREMIUM FUNDING

During the year premium funding also caused problems for many insureds. The problem usually arises on cancellation in a manner similar to that concerning broker’s fees/commission. Many insureds still do not realise that premium funding is not the same as the insurer accepting monthly payments of premium.

Where a broker arranges premium funding he should very clearly set out the position to an insured. Cancellation should be explained including the fact that the premium funder may demand payment in full of all interest which it would have received had the agreement gone full term and also that in addition there may be a premium funding commission payable to the broker which the broker may not be prepared to refund either pro rata or at all.

If these matters are not disclosed to an insured at inception then this Referee will consider an argument that the insured has been misled. This will, of course, depend on the circumstances.

Brokers should remember in both commission and premium funding disputes that the mere fact that the insured is a business person does not mean that the insured will necessarily understand arrangements about commission between brokers and insurers.

CANCELLATION FORESHADOWED AT INCEPTION

In this past year there have been complaints where it has been alleged that the broker was aware at inception or renewal of a policy, that it was the intention of the insured to sell the business or the property, the subject of cover, and that the policy might be cancelled mid-term. When cancellation occurred there were problems about the amount of the refund of premium, commission, premium funding etc.

In those circumstances, this Referee considers that a broker has a very real obligation to explain to the insured at inception exactly what will happen mid-term on cancellation so that the insured is not surprised by the amount of the premium refund. Failure by a broker to do so will inevitably reflect on the broker.

DANIELA KIRCHLINDE

Towards the end of the year Ms Daniela Kirchlinde, who has managed Insurance Brokers Disputes since its inception, took maternity leave. I am sure that all brokers and others associated with the facility will be pleased to hear that she subsequently had a baby boy, Simon. Ms Kirchlinde

effectively ran this facility for many years and its continuing effectiveness is a tribute to her. Congratulations to Daniela and her husband, Tony Brain.

3. Report from the General Manager, Mr Khaldoun Hajaj

In 2003 IBD entered its second year as an independent entity as approved by ASIC.

2003 has also been of great significance for the insurance broking industry as it marked the end of the two-year Financial Services Reform Act (FSRA) transition period. Among other things, the FSRA has caused the insurance broking industry to alter much of its business and advisory structures to be more responsive to consumer needs.

The FSRA compelled all insurance brokerages to either attain an Australian Financial Services Licence (AFSL) or operate as an authorised representative of a licensee. The change in the licensing structure has, among other things, caused many established brokerages to either sell their businesses to licensees or alternatively operate as an authorised representative. It seems that the FSRA has also provided larger brokerages with opportunities to acquire smaller businesses.

IBD has become a key link in the licensing chain. The FSRA requires that all licensees subscribe to an External Dispute Provider. IBD now provides almost 100% coverage over the retail general insurance broking industry. As well, it covers a significant number of other insurance intermediaries, including underwriting agencies and insurance agents.

The changes experienced by the insurance broking industry have also had a sizeable effect on the operation on this facility. This includes the loss of some 120 of our members and a lack of certainty over “ownership” of complaints. Indeed, with so many members opting to operate as authorised representatives, there was some confusion over who was responsible for the handling of new complaints. The reduction in numbers has also had an adverse impact on the financial viability of the scheme. However, the loss of the members has been offset by an influx of more than 100 new members, who have ensured that the scheme remains in a healthy state.

In line with other external dispute resolution schemes, 2003 saw a reduction in the total number of written complaints and an increase in the number of telephone inquiries. The reduction in the number of written complaints may be attributed to greater member vigilance in dealing with internal complaints. This is not surprising as the FSRA deems the provision of effective internal disputes handling facilities as central to the resolution of disputes, which may arise. Still, IBD has also been vigilant in seeing that members have thoroughly investigated any written complaint before an IBD investigation commences.

The increase in the total number of telephone calls may also be attributed to the increasing level of community awareness of EDR processes. Much of this awareness is derived from improved disclosure standards stemming from the recent application of the FSRA. Again, many of the disputes, which IBD had been contacted to deal with, are often resolved by the immediate involvement of the broker as a result of the general manager’s intervention. The strategy of enabling brokers to solve disputes before they materialise as a formal complaint has been very successful in seeing a decline in the total number of written complaints received.

With the full application of the FSRA, IBD is now entering a period of membership consolidation. During the next 12 months, it is expected that IBD membership will stabilise between 750 – 850

members. This deems the scheme to be quite large. It is indeed growing as the industry also consolidates and learns to deal fully with legislative the changes as driven by the Corporations Act.

With the above in mind, IBD is looking to structure itself in manner consistent with other well-established EDR schemes. Amongst other things, we are considering:

- A fee structure based on brokerage size;
- Issuing practice guide notes;
- A revised General Insurance Brokers Code of Practice;
- Holding annual state-based member consultation;
- Joining the universal financial services complaint hotline;
- An interactive member website interface; and
- An independent review of the schemes' functionality.

With these factors in mind, the IBD Board and General Manager will consult widely with members and consumer interests to ensure that any proposed changes are executed with their support.

I would like to thank IBD members for their support for this scheme. It has been my privilege to work with this very mature industry and I hope that the next 12 months see industry stabilising in the face of the very tough legislative challenges put before it over the past two years.

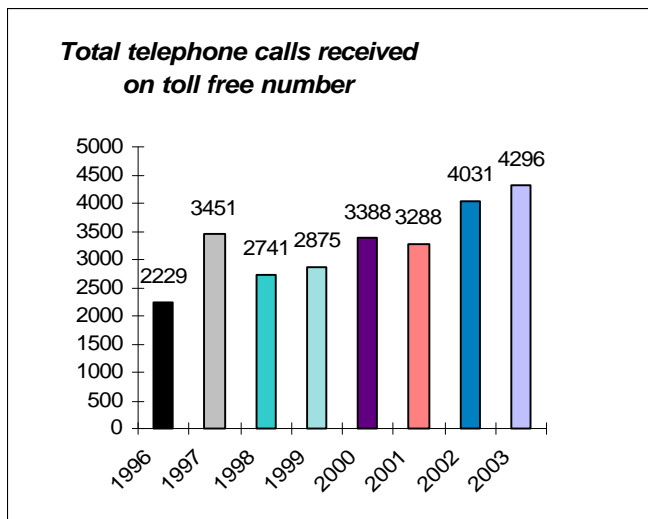
Complaints Analysis

The following charts provide statistics for telephone calls received on its toll-free number 1800 064 169, telephone enquiries and complaints and written complaints received by IBD for the period from January 1, 2003, to December 31, 2003 (the reporting period) and their progress as at December 31, 2003.

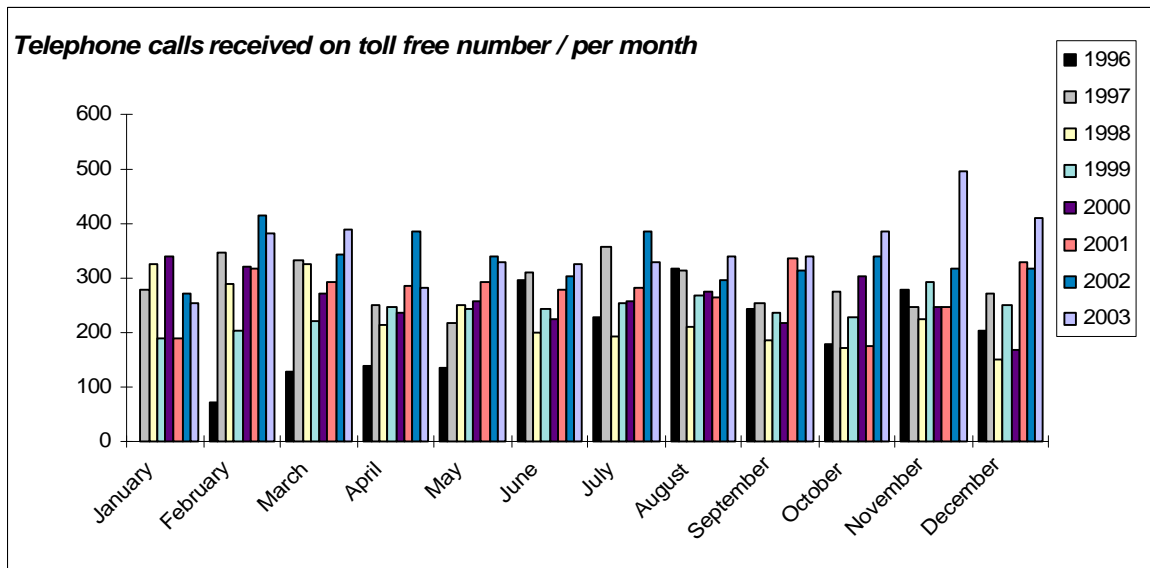
4.1 General analysis of contacts, enquiries and complaints

IBD keeps statistics in regards to telephone calls received through the toll-free number, telephone enquiries and complaints and written complaints. The most detailed statistics are kept for written complaints only, as most consumers want to stay anonymous when they call for advice only. Information can only be collected when practical in the cause of the telephone call.

4.1.1 Telephone calls to toll-free number



- A total of 4,298 telephone calls were received on IBD toll-free number, which is a slight increase of 6% to last year's number of 4031 telephone calls.
- Average of 358 calls per month (compared to 336 in 2002).
- These include telephone calls regarding existing complaints, telephone enquiries and complaints, general insurance enquiries, broker referrals about hard-to-place business or specific risks, referrals to other complaints schemes and relevant bodies and general inquiries regarding the services provided by IBD.
- The 1800 number is frequently used to obtain any kind of information (ie telephone numbers, help line, etc) as it is a toll-



- The marked increase in telephone inquiries in the latter months of 2003 was due to the looming FSRA transition deadline.

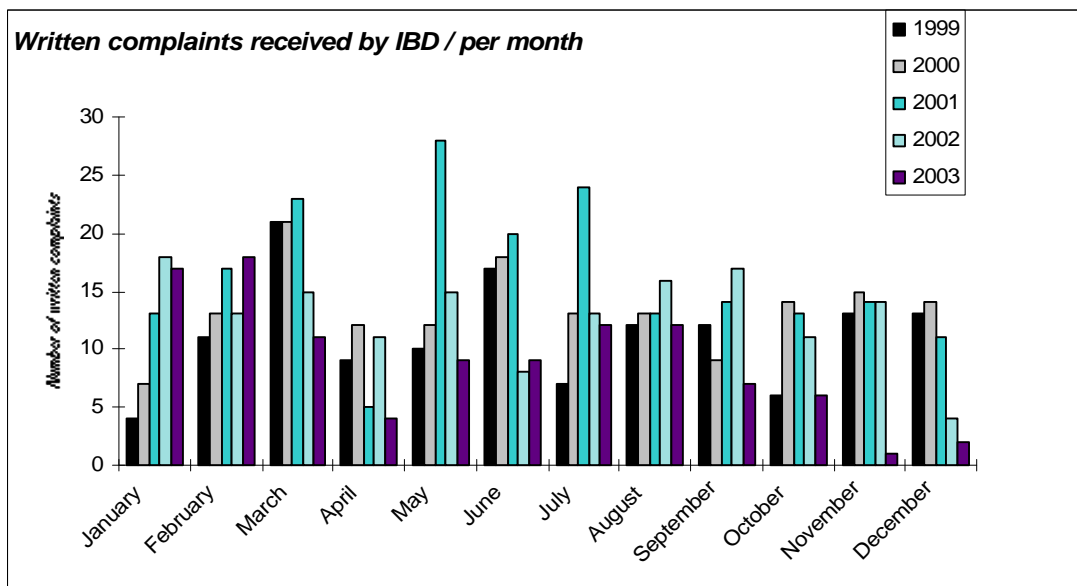
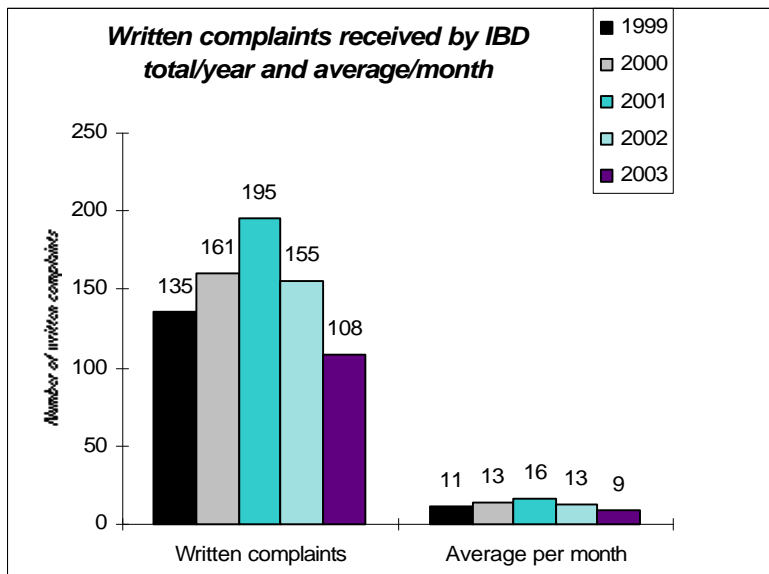
4.1.2 Telephone enquiries and complaints

- When a consumer contacts IBD, initial advice is provided verbally over the phone.
- This can be advice in regards to all kind of matters, as highlighted in point 4.1.1.
- If the matter is regarding a complaint against a member, IBD provides the consumer with the contact detail of the relevant complaints manager of the member and encourages the consumer to discuss the matter with that person.
- If there appears to be a communication breakdown between the member and the consumer, IBD contacts the member to advise of the complaint and encourages the member to resolve the matter before a written complaint is lodged.
- In the meantime, IBD also provides the complainant with a complaint form for completion, in case the member is unable to achieve a resolution to the problem.
- ASIC requests that IBD keep detailed statistics of telephone enquiries and complaints. However, most consumers are reluctant to leave names or details.
- Statistics are not always accurate, as consumers want to discuss and find a solution to their problem rather than answer questions. Once it has been established by IBD that the consumer has a valid complaint, a written complaint is requested anyway, which will provide the facility with all the relevant details.
- Where practical, statistical information in regards to the caller is recorded.
- The major causes of complaints received were cancellation/refund issues (28%); renewal matters (21%); cover-related matters (14%); and claims-related issues (11%).
- Most complaints involved business policies and private motor vehicle policies with about 30% each, followed by home and contents and liability policies with about 10% each.
- Of concern is the fact that so many small claims (under \$1000) have been allowed to evolve into written complaints. Given the cost associated with official complaint handling and the associated potential impact on the premiums of members' professional indemnity insurance, it seems imprudent that so many members allow this situation to take place. The General Manager often

tries to convince the member to take a more pragmatic business decision in internally resolving complaints involving smaller amounts. But it seems that relationships between broker and consumer have often deteriorated by that point beyond internal conciliation, necessitating the intervention of IBD.

- 23% of calls were referred to other complaints facilities, with the majority (16%) being referred to Insurance Enquiries and Complaints Limited (IEC). Thus IBD also acts as a referral centre.

4.1.3 Written complaints

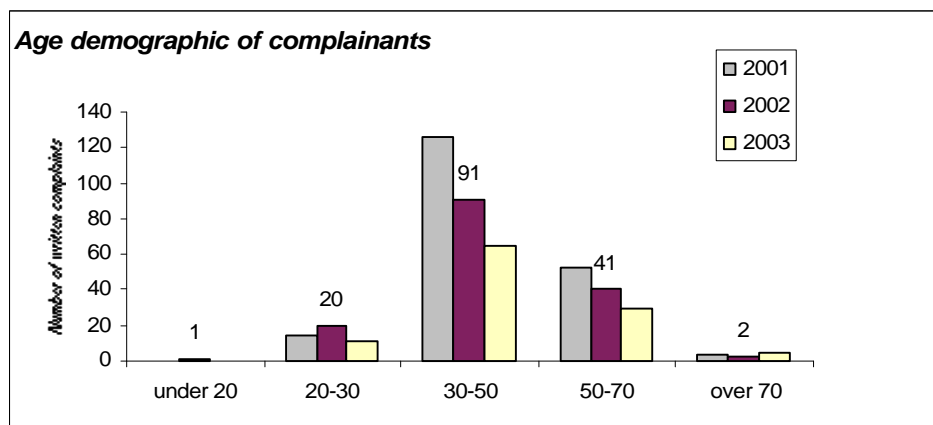


- Once a written complaint is received by IBD, it is included in the statistics for written complaints received and a complaint number is allocated to each case.
- The complaint is recorded on our database and progress of the complaint is monitored.
- IBD registered 108 written complaints, representing a decrease of 30% in comparison to 2002 (155) and the lowest since the inception of this facility in 1996. The decrease is consistent with other established EDR schemes such as the Banking and Financial Services Ombudsman (BFSO) and Insurance Enquiries and Complaints Limited.
- There was an average of nine registered complaints per month in 2003 (compared to 13 in 2002).
- We believe that the combination of the increase of telephone enquiries and complaints and the decrease of written complaints confirms the effectiveness of IBD and its awareness by consumers to use the facility to obtain initial advice and to offer alternative dispute resolution.
- Most concerns can be resolved with a simple telephone call and good communication between IBD, the consumer and the member involved. IBD has established a good working relationship with most of its members and encourages dialogue to discuss matters.

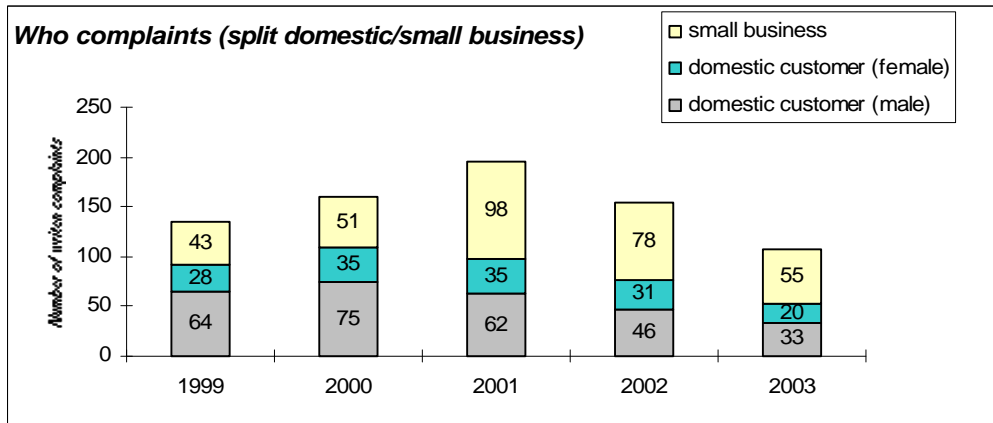
4.2 Specific analysis of written complaints

The following detailed statistics are in regards to written complaints only. There were 108 written complaints lodged with IBD in 2003. The details of each complainant are obtained via the complaint form completed by each complainant.

4.2.1 Demographics

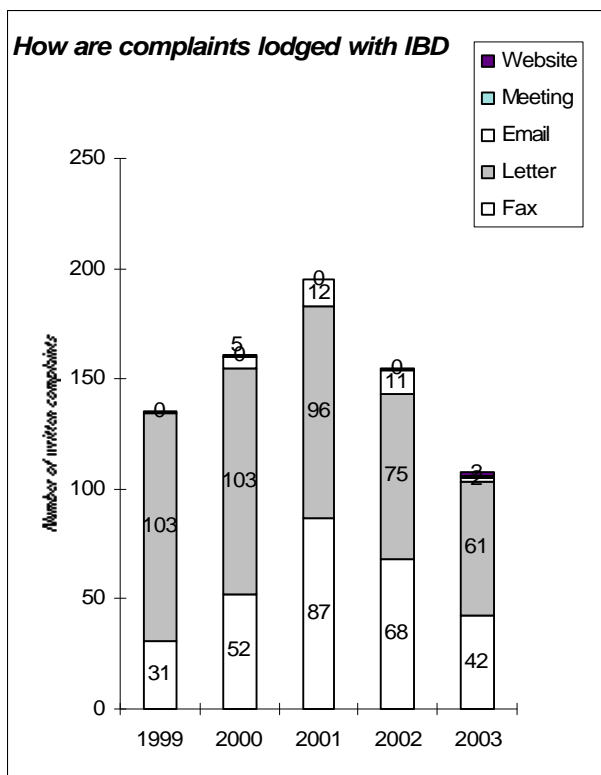


- As requested by ASIC, IBD has been keeping statistics on the age of complainants since 2001.
- 59% of the complainants were in the 30-50 years age group (in comparison to 60% in 2002).
- 27% of complainants were aged between 50-70.
- 10% of complainants were aged between 20-30 and only 4 complainants were over 70.
- Complaint forms and translating services are available in Arabic, Chinese and Vietnamese (and other languages if required) to cater for the most common languages.
- A total of 11 (10%) complaints were received from consumer with English as a second language. This figure demonstrates that IBD is not well known to the very diverse range of ethnic communities and as such, resources need to be made in order to better diffuse knowledge and understanding of EDR and IBD in particular.



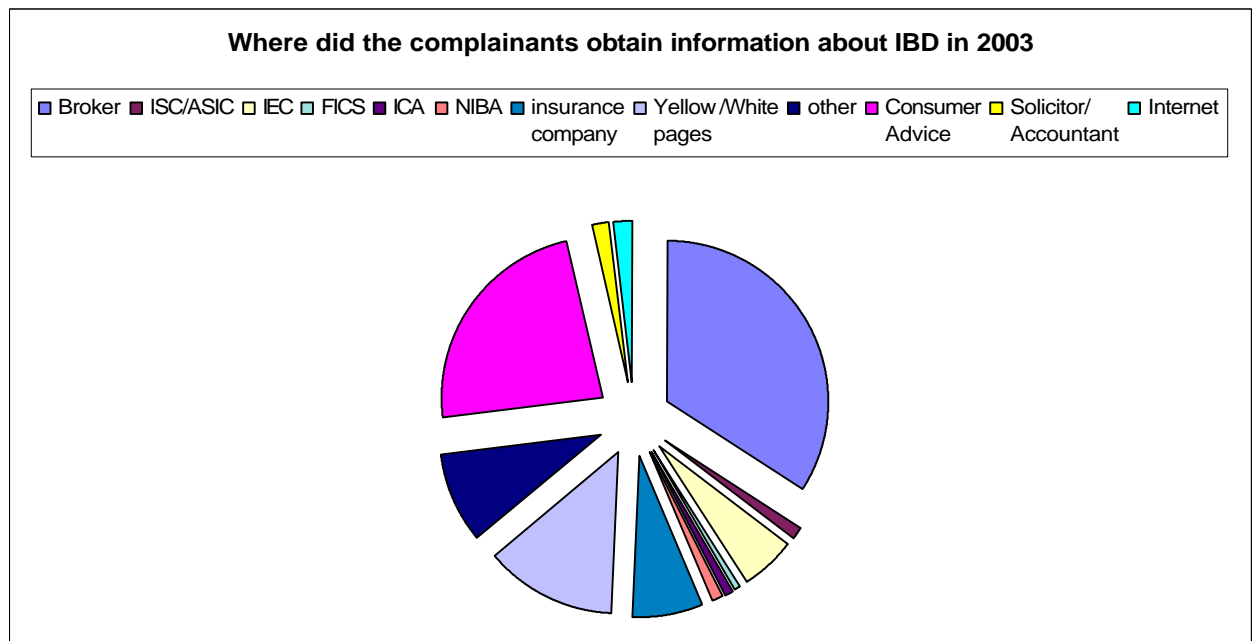
- 51% of complaints were received from small business operations (in comparison to 50% in 2002), with the other half being complaints lodged by domestic consumers.
- Of the small business complaints, a significant number were from retail shops and trades people. But there were also complaints from the building, food, hotel/motel, motor vehicle mechanic/repairer, photographer/photo shop, restaurant and security services industries.

4.2.2 How complaints were lodged with IBD



- Most written complaints are received via fax and letter.
- Email now makes up 7% of received written complaints.
- An increasing number of complainants correspond with IBD via email, even if the original complaint form was lodged by letter or fax.

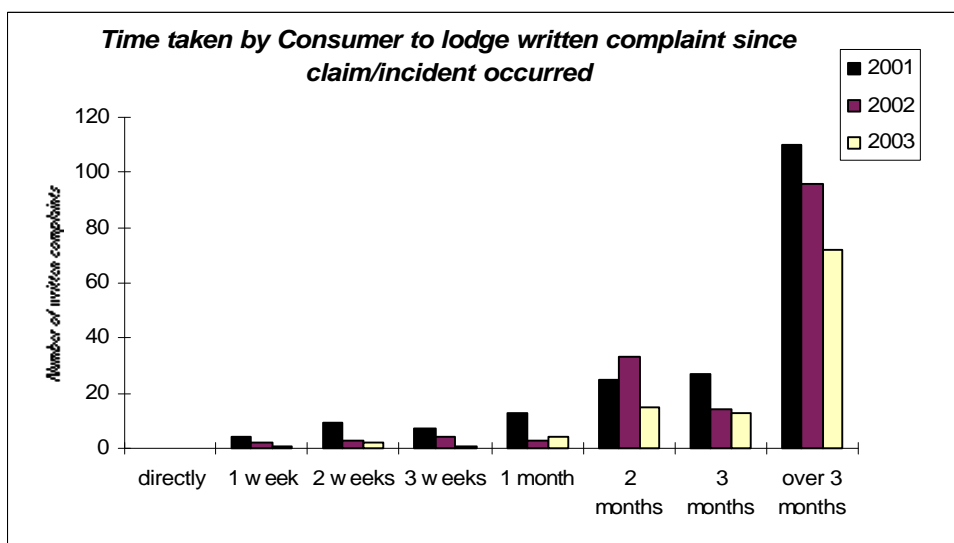
4.2.3 Where the complainants obtained information about IBD



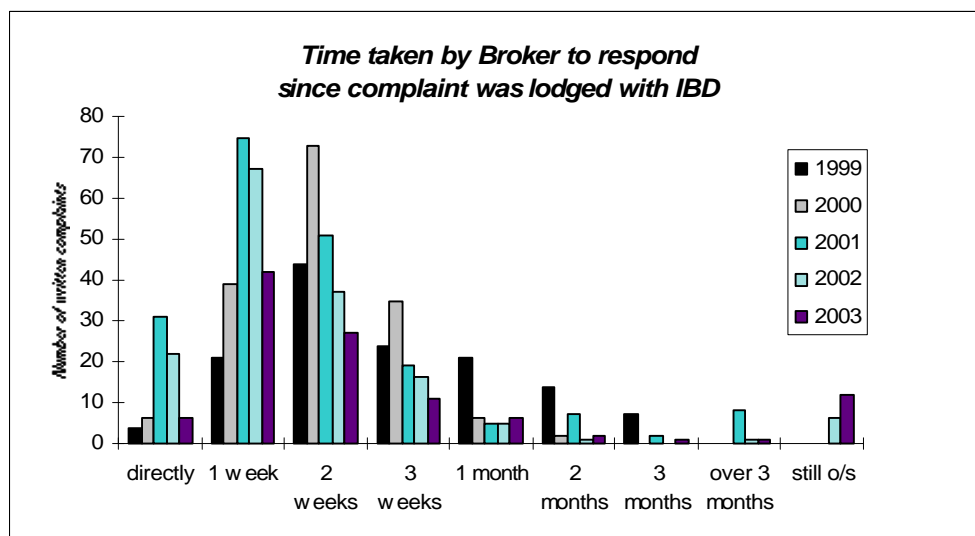
- All members are obliged to advise their clients in writing about IBD.
- IBD suggests that advice be included with the notice of duty of disclosure on the back of invoices and/or statements issued by the broker, using the following sample text:
 “Clients who are not fully satisfied with our services should contact our customer relations/complaints officer. ABC Company also subscribes to the Insurance Brokers Disputes Limited (IBD), a free customer service, and the General Insurance Brokers Code of Practice. Further information is available from this office.”
- IBD would not agree with the above text being supplied in a separate notice because there is too much risk of it being accidentally omitted.
- Brokers who are unable to produce satisfactory evidence of compliance will not be able to obtain renewal confirmation.
- While there is an improvement in the total number of complainants being informed of their right to have matters determined by IBD by brokers (34% as opposed to 28% in 2002), there still remains cause for concern that the majority of complainants learn of the availability of this facility through external sources.
- Members need to make a concerted effort in ensuring that staff are fully trained and informed that it is mandatory to offer this service.
- A copy of IBD guidelines and the supporting General Insurance Brokers Code of Practice should be made available to consumers at no cost.
- IBD is auditing the requirement for brokers to adequately advise the complainant about the services provided by IBD on an ongoing basis.

4.2.4 Timeframes

- IBD promotes the following conciliation process:
 - A broker should first attempt to resolve the complaint with their own internal dispute resolution scheme
 - If the complaint cannot be resolved within 20 days, the matter should be referred to IBD for conciliation.
 - If the complaint cannot be conciliated within 20 days, the matter will be referred to the Referee for determination.



- 67% of complainants wait for three months and longer after the claim/incident (the cause of the complaint), before contacting IBD to lodge a complaint in writing.
- In some cases the Referee determined that the broker should pay interest on the outstanding claim amount, as the broker did not take active steps to expedite the situation and resolve the complaint within a reasonable time.
- IBD noted significant time delays in particular in cases where there was more than one broker involved in placing the policy (ie use of sub-agents, wholesale brokers or underwriting agencies to place business).



- As soon as IBD receives a written complaint, a copy of the document is formally forwarded to the broker with a request for comment within seven days.
- If no response has been received within seven days, a follow up letter is forwarded to the broker and the broker is given another week to respond.
- If still no response is received, the broker will receive a warning that unless a satisfactory response is received within two days, the matter will be referred to the Referee for determination.
- Once a written complaint had been lodged with IBD, 42% of brokers responded to IBD within one week.
- Another 27% responded within two weeks, which is within the time limit set by the IBD Terms of Reference.
- Only four brokers took more than one month to respond to IBD. At that stage the complaint had already been referred to the Referee.
- 46% of complaints are finalised within one month, with 33% being finalised within the set time limit of 20 days.
- Longer time frames are required in cases where IBD and/or the Referee requested further information or documentation from the parties involved.
- If the quantum of the claim is to be determined, the Referee will request both parties to provide evidence and adequate documentation to substantiate the claim amount. In a few cases the Referee has requested the broker to provide a report from an independent assessor, which also required some time.

4.2.5 Origin of complaint

2003	ACT	NSW	NT	QLD	SA	TAS	VIC	WA	TOTAL	in %
Complaints metro	1	31	0	10	7	3	21	12	85	79%
Complaints country	0	7	0	9	1	1	3	2	23	21%
Complaints total	1	38	0	19	8	4	24	14	108	
In % of total complaints	%	35%	0%	18%	7%	4%	22%	13%		

- The majority of complaints came from metropolitan areas, amounting to 79% in 2003.
- The state of origin of registered complaints was consistent with the overall population size of the state.

4.2.6 Class of insurance

	1999	2000	2001	2002	2003
Business Pak Total	37	27	74	37	33
<i>Bus Pak General</i>	37	27	40	18	19
<i>Bus Pak Fire& Perils</i>	n/a	n/a	2	0	3
<i>Bus Pak Bus Int</i>	n/a	n/a	1	1	0
<i>Bus Pak Burglary</i>	n/a	n/a	15	11	4
<i>Bus Pak Glass</i>	n/a	n/a	2	0	1
<i>Bus Pak Money</i>	n/a	n/a	1	0	0
<i>Bus Pak PL</i>	n/a	n/a	9	4	4
<i>Bus Pak Fidelity Guarantee</i>	n/a	n/a	0	0	0
<i>Bus Pak Mach B'down</i>	n/a	n/a	4	2	2
<i>Bus Pak Electronics</i>	n/a	n/a	0	1	0
<i>Bus Pak PA</i>	n/a	n/a	0	0	0
Contractors Risk	n/a	n/a	n/a	1	0
Farm	3	5	6	3	1
Home & Contents	25	29	28	27	11
Income Protection	n/a	n/a	n/a	2	0
ISR	1	1	1	2	1
Life	1	2	0	0	0
Livestock	0	1	6	0	2
Marine	2	2	1	1	0
Mobile Phone	n/a	n/a	n/a	2	0
MV Total	39	62	47	42	33
<i>MV private</i>	39	62	32	31	25
<i>MV Commercial</i>	n/a	n/a	15	11	8
Personal Accident/Sickness	11	8	6	5	4
Pleasure craft	n/a	n/a	2	1	1
Professional Indemnity	2	2	8	5	2
Public Liability	6	10	2	19	13
Strata					
Title/Landlord	n/a	n/a	7	3	6
Travel	0	1	0	5	0
WC	1	3	4	0	0
Other	7	8	3	0	1

- Business pak and motor vehicle commercial insurance policies accounted for 62% of complaints in 2003 (31% each), a respective increase from 24% and 27% in 2002.
- 23% of complaints were about private motor vehicle policies and 7% involved commercial motor vehicle policies. Complaints included arguments about the difference between market and agreed

value, excesses and non-disclosure of past convictions and nominated drivers being under 25 years old.

- Since 2001 IBD has kept more detailed statistics as to what section of the business pak policy was involved in the complaint. Most complaints involved the burglary and public liability sections.
- Complaints included incorrect advice received from the broker in regards to sums insured, not reflecting the true value of the business, no cover for laptops and cigarettes, excess issues and brokers not being able to offer liability insurance at a reasonable price.
- Home and Contents policies make up 10% of the complaints (in comparison to 17% in 2002).

4.2.7 Nature of Complaints

	1999	2000	2001	2002	2003
Cancellation/Refund	26	35	26	19	30
Claim	22	22	37	23	12
Cover	36	25	26	35	15
Fee	n/a	n/a	n/a	1	1
Fraud	0	0	0	1	0
New Business	22	34	35	14	9
Non disclosure	n/a	n/a	n/a	7	7
Premium funding	n/a	n/a	n/a	4	1
Premium	8	3	3	3	1
Professional Conduct	4	4	2	1	1
Renewal	13	31	60	40	23
Value agreed/market	n/a	n/a	4	6	5
Excess	4	6	2	1	3
Other	0	0	0	0	0

- 28% of complaints related to cancellations/refunds. Many of these disputes arose from a lack of understanding of policy cancellation procedures. Members will need to spend more effort educating their clients about the consequences of policy cancellation or termination. One of the most common problems involves complainants expecting a pro rata refund that is not in line with what they finally receive. Disputes arise as a result of their lack of knowledge of trailing commissions. To this end, it is imperative that the industry sets in place a full disclosure standard which provides consumers with details of all fees, commissions and cancellation penalties.
- 21% of complaints related to problems with renewal of policies (in comparison to 26% in 2002) – in particular, where renewal had been offered only shortly before or even after the due date with a substantial increase in premium, or the client had been advised that the broker was unable to obtain renewal terms without a reasonable time limit before the due date to allow the client to try and arrange insurance elsewhere.
- Problems arose where there was a misunderstanding over whether the consumer actually requested cover from the broker or only a quote. Another source of complaint was that the complainant forwarded premium payment to the broker, but had not been made aware that effective cover was dependent on additional information or documentation being provided to the insurer. Disputes also arose when the broker issued a certificate of currency, although no premium had been received, but when a claim occurred the insurer denied the claim due to non-payment of premium.

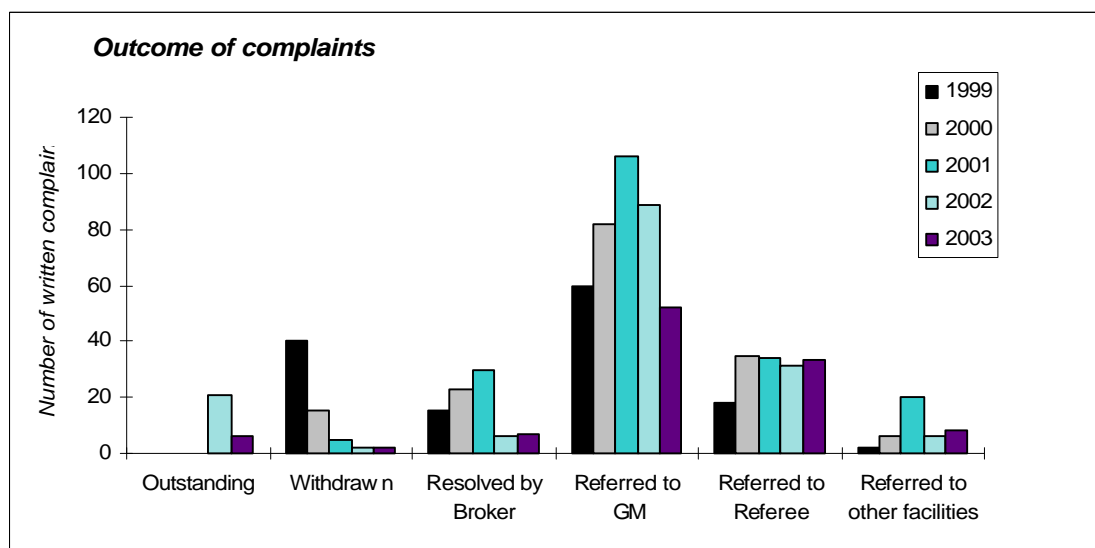
- Difficulties arose in relation to the inception date of the policy and confirmation of premium (in particular, if the premium depended on the consumer providing certain documents to the broker/underwriter, such as proof of no claim bonus). It is strongly recommended that brokers always confirm in writing to their clients details of any agreements, policy conditions, changes to policies, telephone conversations and meetings.
- Where premium funding was involved, it appears that many consumers were not aware that they in fact entered into two different contracts – the insurance contract and a separate loan contract. The broker often explained the premium funding contract as a “pay by the month facility” and did not highlight specifically that it was a separate contract similar to a loan attracting separate interest and cancellation fees. In most cases the consumer said he/she signed the contract without having been made aware they were signing a separate contract.
- The statistics in regard to the nature of complaints should be used as a guideline only. It is difficult to determine the nature of a complaint precisely, as it often involves various issues. Only the main issue will be included in the statistics.
- IBD publishes all determinations made by the Referee to provide examples of the type of complaints that are handled by the facility.

4.2.8 Value of claims involved

	1999	2000	2001	2002	2003
Under \$1,000 Total	14	57	59	32	35
<i>Under \$100</i>	<i>n/a</i>	<i>n/a</i>	8	8	2
<i>\$101-\$500</i>	<i>n/a</i>	<i>n/a</i>	16	11	16
<i>\$501-\$1,000</i>	14	57	35	13	17
\$1,001-\$5,000 Total	27	38	43	62	28
<i>\$1,001-\$2,000</i>	10	11	15	22	15
<i>\$2,001-\$3,000</i>	1	3	8	21	8
<i>\$3,001-\$4,000</i>	1	4	11	10	0
<i>\$4,001-\$5,000</i>	15	20	9	9	5
\$5,001-\$10,000 Total	12	11	29	11	13
<i>\$5,001-\$7,500</i>	2	5	9	2	4
<i>\$7,501-\$10,000</i>	10	6	20	9	9
\$10,001-\$25,000 Total	13	10	13	20	14
<i>\$10,001-\$15,000</i>	8	6	6	9	7
<i>\$15,001-\$20,000</i>	5	4	6	10	7
<i>\$20,001-\$25,000</i>	0	0	1	1	0
\$25,001-\$50,000 Total	7	15	13	11	8
<i>\$25,001-\$30,000</i>	5	8	4	1	1
<i>\$30,001-\$35,000</i>	0	0	1	1	1
<i>\$35,001-\$40,000</i>	1	3	1	5	1
<i>\$40,001-\$45,000</i>	0	0	4	1	0
<i>\$45,001-\$50,000</i>	1	4	3	3	5
Over \$50,000 Total	3	0	4	1	0
<i>\$50,001-\$100,000</i>	0	0	2	1	0
<i>Over \$100,000</i>	3	0	2	0	0
No quantified claim involved	59	30	34	18	10

- While IBD rarely receives complaints involving amounts in excess of \$50,000, the fact that a critical mass of members are also now engaged in selling life insurance and superannuation products means that this figure needs to be re-assessed in order for the facility to properly deal with the larger amounts involved in these classes of insurance.
- If a broker wishes IBD to handle a complaint outside that limit, the broker needs to obtain written approval from the PI insurer.
- 32% of claims involved amounts under \$1000. 28% of claims involved amounts between \$1001 and \$5000. 13% involved amounts between \$5001 and \$10,000. 13% involved claim amounts between \$10,001 and \$25,000, whilst 7% involved amounts between \$25,001 and \$50,000.

4.3 Outcome of Written Complaints



- As highlighted in the General Manager's report, the reduction in complaint numbers may be attributed to greater levels of interaction between the General Manager and complaints managers. IBD is spending more time discussing the complaint initially on the phone with the consumer, to assess if the matter can be successfully handled by IBD or if the consumer should pursue other avenues.
- IBD also provides consumers with information on other complaints facilities and relevant bodies. Four complaints were referred to IEC.
- Broker resolved seven complaints after initial involvement by IBD.
- 42% of complaints were conciliated by the General Manager (compared to 57% in 2002). This reflects the fact that only the very difficult disputes are finding their way to IBD.
- 28% of complaints were determined by the Referee (an increase from 20% in the previous year).
- Six registered complaints were outstanding as at December 31, 2003.

4.3.1 Conciliated by General Manager

	2000	2001	2002	2003
Resolved by GM Total	70	74	77	45
<i>Resolved by GM</i>	6	17	16	6
<i>Conciliated by GM in favor of Consumer</i>	18	27	33	22
<i>Conciliated by GM in favor of Broker</i>	44	30	27	15
<i>Conciliated by GM as compromise</i>	2	0	1	2
Rejected by GM Total	12	32	12	7
<i>Rejected by GM (other reasons)</i>	0	1	0	0
<i>Rejected by GM as outside class of insurance</i>	0	15	5	3
<i>Rejected by GM as outside small business definition</i>	n/a	2	5	
<i>Rejected by GM as outside claim limit</i>	11	2	1	2
<i>Rejected by GM due to legal action being taken by consumer</i>	0	0	0	2
<i>Rejected by GM as based on verbal accusation only</i>	1	12	1	0

- The decline in the number of complaints may be due to the heightened level of awareness by members of the importance of dealing with a complaint internally.
- IBD experiences significant difficulty in dealing with evidence based solely on conversation (in the absence of a written record). To this end, consumers may also find it useful to note matters which may be of use in the event of a dispute.
- In dealing with complaints, IBD is unable to comment on unsupported verbal allegations. We are of the opinion that the broker, as the professional party arranging the insurance contract, should avoid conflicts based on verbal accusation by confirming all issues relating to the insurance contract in writing to the client.
- In these matters, IBD will put a greater emphasis on the broker providing evidence supporting what was discussed with the consumer in writing at a later stage.

4.3.2 Determined by Referee

	1999	2000	2001	2002	2003
Resolved by Referee Total	14	22	32	31	30
<i>Resolved by Referee</i>	0	7	0	1	0
<i>Determined in favor of Consumer</i>	7	2	13	8	8
<i>Determined against Broker</i>	n/a	n/a	n/a	n/a	2
<i>Determined in favor of Broker</i>	6	0	18	22	19
<i>Determined as compromise</i>	1	13	1	0	1
Rejected by Referee Total	4	13	2	0	3
<i>Rejected by Referee (other reasons)</i>	3	13	0	0	3
<i>Rejected by Referee due to lack of evidence</i>	1	0	2	0	0

- Details of all determinations are included in the publication of the summaries of all complaints.
- Where a determination against a broker has been made, the broker has been ordered to submit an audit report of their administrative capabilities.

5. Participating insurance brokers

		ACT	NSW	NT	QLD	SA	TAS	VIC	WA	TOTAL
2000	IBDF brokers	9	360	5	181	72	15	254	102	998
	<i>In % of total brokers in state</i>	69%	81%	83%	85%	82%	83%	84%	82%	82%
2003	IBD brokers Total*	11	317	3	157	51	13	199	84	835
	<i>In % of total brokers in state</i>	79%	83%	100%	89%	77%	87%	84%	81%	84%
	General only	9	279	3	152	49	11	188	78	769
	Life only	0	9	0	1	0	2	4	2	18
	General & life	2	23	0	4	2	0	7	2	40
	Foreign ins agency	0	0	0	0	0	0	0	1	1
	Underwriting agency	0	6	0	0	0	0	0	1	7

Note:* Figures are as at 30 September 2003 and do not include early received renewals or new membership applications for 2004 period.

- The past six months have seen IBD experience very significant rates of member growth. This has mostly been due to the FSRA. ASIC is of the opinion that IBD is well equipped to deal with general insurance complaints that are based on advice given and negligence as opposed to claims-based complaints.
- FSRA-driven changes to the demography of the insurance broking industry have made it very difficult to predict what our numbers will be like by the end of 2004. So far this year, IBD has lost about 120 members. Many have simply let their membership lapse without informing IBD.
- IBD has accepted some 98 new members in the past nine months. Most of these members are brokers. However, we have also received applications from several underwriting agencies and other intermediaries dealing in managed funds while selling general insurance to their clients as an incidental product. Generally they include financial planners, large building companies and strata title managers. General insurance plays a small part of their overall business, but ASIC insists they acquire IBD membership. IBD is comfortable with these members as they basically replicate the advisory process and are acting as intermediaries. IBD will only handle complaints related to their broking businesses and they are required to join other schemes which deal with complaints relating to other parts of their business.
- Industry clustering is causing difficulties in dealing with some complaints. These problems also extend to collecting dues. IBD does not currently have any provisions to charge membership per authorised representative. This means that members who have elected to operate using another broker's licence no longer need to pay any dues to IBD. This is despite the fact the licensed broker will continue to pay the same level of fees regardless of the fact that they now have responsibility for dealing with complaints that relate to what was until very recently another business. Provisions will need to be made to capture the lost income from these brokerages.
- IBD has accepted the membership of underwriting agencies. However, given they are not insurance brokers, they are being charged at different membership rates.