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HANDS UP ON FEES

Complete disclosure and transparency of fees is the only way insurers can truly shake off allegations of hidden commissions and bid-rigging, writes **Kevin Heerden**.

Evidence suggests the use of contingency fees is not wide-spread in the Australian market, however clients are intrinsically linked to the situation due to the global insurance market.

New York Attorney General Eliot Spitzer's investigation into alleged kickbacks and illicit bid-rigging schemes within the US insurance market has wider ramifications for the industry in Australia, and not before time.

While Spitzer's language will be viewed as harsh and provocative by some, there is little denying "contingency fees" – or "preferred supplier agreements" as they are sometimes called – have been part of the insurance industry for a long period of time.

The fact they are endemic in the culture of our industry has led to an overall assumption by those who impose these fees that they are not illegal.

However, Spitzer's investigation into alleged bid rigging, which revolves around claims

of collusion between US-based Marsh & McLennan and a panel of insurers over the pricing of insurance offered to clients, is already threatening to end the wider, more complex web of "hidden" transactions between brokers and insurers.

Given the attention that the issue has attracted locally, the potential to taint the entire industry with the same 'contingency fee' brush is significant.

One of the ramifications of the US price-fixing inquiry is a likely tightening of regulations within the US insurance industry, which will almost inevitably lead to similar scrutiny here in Australia.

Evidence suggests the use of contingency fees is not widespread in the Australian market, however clients are intrinsically linked to the situation due to the global insurance market.

While clearly any form of bid-rigging cannot be tolerated in the industry, it is guaranteed many industry players will disagree with a tightening of regulation in Australia as a large number of insurers already believe the industry is overregulated.

Although the Australian insurance industry is among the most regulated in the western world, Spitzer's investigations have demonstrated the need for a greater level of transparency and accountability across the insurance industry and have justified claims complete transparency is the only way for the industry to move forward.

It is imperative the suggested hands-above-the-table approach be implemented industry-wide as a model for how to conduct business.

It is also essential a significant

amount of cultural change takes place. This involves the industry altering the mentality of how it does business, charging fully disclosed, up-front fees and then following through with quality service to demonstrate the value of the price charged.

One could realistically assume the flow-on effects of the US price-fixing inquiry may see the complete eradication of commissions in the industry. This makes sense, given savvy consumers will be more willing to ask questions about the billing systems brokers are using and clients will presumably now have a heightened sensitivity towards commissions.

It is not entirely clear at this stage what the financial impacts will be to those companies who have relied on hidden commissions. However, it is highly doubtful businesses which have profited from these fees will be able to sustain the margins they have been achieving for the past few years.

It seems safe to assume that the US investigations will have an impact on the cost of insurance considering pressure will now fall on brokers to deliver greater value to the ultimate buyer.

Companies which have traditionally imposed these commissions are now confronting the issue of how to keep their clients. While it is highly likely price cutting is on the agenda, past experience would signal that where damaged reputations are concerned, price reductions may simply not be enough. ■