

EFFECT OF the binder agreement on administrators

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The way in which binder agreements are being negotiated and implemented has significantly changed as a result of growing consumer awareness and the introduction of new, stricter legislation. Consequently, it has become necessary for administrators to more

clearly define and articulate exactly what role they play in the insurance industry.

A definitive set of regulations now helps define these roles, responsibilities and conflicts of interest, as well as the remuneration and full disclosure requirements of all parties to an insurance contract. This results in everyone being subject to for more scrutiny. And they are now more certain of the implications. Risk administration receives major emphasis in the new regulations. For example, an administrator performing binder functions must now make a clear choice whether they are operating as an underwriting manager or an intermediary. Administrators who do not perform binder functions can continue to operate in an outsourcing capacity.

Binder holder administrators may perform the following duties on behalf of the insurer, but never to the detriment of the client:

- Enter into, vary or renew policies with the Insurer only being made aware after the fact of any such change.
- Determine the premium on behalf of the insurer.
- Determine the policy benefits.
- Settle claims.

What is of utmost importance in terms of the regulations is that the welfare of the client is at all times paramount and should be the priority of the administrator in all their duties and functions. The binder holder must also undertake to submit all relevant information regarding the risks accepted to the insurers on a regular basis. Such information might include data sharing and the *transfer* of client/policyholder information to insurers.

Risk administrators must be compliant with the conditions of their agreement at all times. No function of the binder agreement may be outsourced by the administrator. No policies may be cancelled or claims rejected which are issued under the binder agreement.

With the advent of the new regulations, the role of the administrator is no longer peripheral as was the case in the past. The administrator is now a fully integrated, responsible and accountable part of the insurance industry supply chain and must perform accordingly.