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Do you remember not so long ago in 2012 when the Binder Regulations came into effect, it was predicted that underwriting managers would cease to exist. It was believed that as soon as an independent intermediary was issued with a binder, the need for an underwriting manager would become redundant.

However, during the period that the Binder Regulations came into effect, it became clear to the regulator that certain undesirable practices had developed in the insurance industry, which had to be addressed.

What became clear was that underwriting managers (those as defined in terms of legislation) were the role players within the industry that were intended to be binder holders.

Underwriting managers have existed for many years in the South African insurance industry. If anything, they have positively influenced the growth of the insurance industry for a long time. The concept is not unique to South Africa, but in most parts of the world they operate in a similar manner.

An underwriting manager is always the agent of the insurer. By only being the agent of the insurer, it avoids any conflict of interest as it cannot market and sell directly to consumers.

Underwriting managers that have stood the test of time are those that operate in a niche area of the market. They are able to provide valuable expertise and technical skills for usually complex types of insurance policies. Given their unique skill and expertise, they are able to develop products, underwrite and settle claims.

In addition, underwriting managers will remain valuable players for the following reasons:

1. They usually understand their customers and the market requirements;
2. Usually as owner-managed entities, they balance entrepreneurial spirit well with that of solid administrative and governance policies;
3. Their expertise and technical skill is invaluable for insurers that want to broach into other classes of business but do not necessarily have the internal skills and capabilities;
4. Usually smaller than insurers they are more nimble as they are able to quickly

- adapt to changes in the market;
5. Reinsurers tend to trust underwriting managers because of their expertise and technical capabilities; and
  6. They provide solid customer service, their life line is intermediaries and if they do not perform they will lose their income stream.

Underwriting managers know that their reputation is paramount to their development and growth in the industry, as they are agents of the insurer; they carefully guard their relationship with an insurer. They step into the shoes of the insurer in their interaction with the industry and they need to make sure that they always behave as if they were the insurer. Given this behaviour, the argument that underwriting managers are only chasing profits becomes redundant. This type of behaviour is not accepted by insurers that have outsourced critical functions to the underwriting manager.

Underwriting managers have become a cornerstone of the South African insurance market. They will continue to exist (well the "true" ones at least) as different and more insurable risks develop. The industry needs the visionaries and entrepreneurs to develop and grow niche markets.

Like any other business model, there will always be risks but underwriting managers will continue to exist for as long as they align their strategies with the insurer, which inevitably places the customer at the centre of their business.

In order to verify whether an entity is an underwriting manager, contact the South African Underwriting Managers Association. Most well recognised underwriting managers are members of this organisation. Don't forget that underwriting managers are also registered as financial services providers with the Financial Sector Conduct Authority.

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