



INSURANCE
BROKERS
DISPUTES
LIMITED

ANNUAL REPORT

1 JANUARY – 31 DECEMBER 2005

PURSUANT TO THE TERMS OF REFERENCE
OF INSURANCE BROKERS DISPUTES
LIMITED (IBD) THE FOLLOWING IS THE
ANNUAL REPORT COVERING THE PERIOD
JANUARY 1, 2005 TO DECEMBER 31, 2005.

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EXECUTIVE SUMMARY

- 2005 marks the third anniversary of the commencement of IBD as an independent company and the 10th anniversary of the establishment of its predecessor IBDF.
- While the previous reporting period saw an increase in the number of new written complaints lodged with IBD, this year there was a 27% decrease to 93 written complaints. The trend for an increasing number of complaints to be resolved by the members' internal dispute resolution (IDR) procedures after an initial telephone contact was made by the complainant continued this year.
- IBD amended its reporting process in order to capture more data relating to initial telephone complaints before a written complaint was lodged with the facility. From 147 telephone complaints received in 2005, only one-third developed to a written complaint.
- IBD also amended its reporting process to improve its important role in identifying and resolving systemic issues. All of the 14 potential systemic issues identified related to insufficient IDR systems, and in each instance it appeared that the member did not provide the complainant with adequate information and advice about their own IDR system and the services provided by IBD. As at 31 December 2005, seven have been resolved by the member with the remainder still being investigated. IBD will put a greater emphasis on this issue and is currently assisting the NIBA College of Insurance & Risk Professionals to provide adequate training modules.
- According to IBD statistics, in 2005 the complainant received information about IBD from the member in 48% of the written complaints received by IBD, which is an improvement from 27% in 2004.
- The independent review of the operations and procedures of IBD was completed in November 2005. The report contains a series of recommendations which aim for incremental improvement in the scheme's operations by suggesting changes to process and policy. The Board is currently reviewing the structure of IBD to implement the majority of these recommendations.
- The membership base has continued to grow. At 31 December 2005, IBD has 805 members. The majority of members continue to be general insurance brokers. However, there are now a diverse group of other members including accountants, foreign insurance agents, financial planners, underwriting agencies and warranty companies.

INTRODUCTION

Insurance Brokers Disputes Limited (IBD) is a national complaint-handling scheme celebrating its 10th anniversary since first being established in 1996 as the Insurance Brokers Dispute Facility (IBDF). 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. It has recently undertaken its independent review as required under Clause 8.1 of the IBD Terms of Reference and ASIC policy statement 139 "Approval of external complaints resolution schemes".

IBD is a free consumer service designed to handle complaints and assist in the resolution of problems between insurance brokers, underwriting agents and other insurance intermediaries (other than insurance companies) and their clients. It provides support to assist in the resolution of problems quickly and efficiently, without having to resort to costly litigation.

Complaints against insurance companies are handled by the Insurance Ombudsman Service (IOS).

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 and small business policies.

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 (or more than \$5000 for business pak policies), except where the insurance broker or financial service provider and its professional indemnity (PI) insurer have agreed to waive this limit. A consumer also has the right to confirm in writing that a claim which is above these limits is being reduced to \$50,000 (\$5000 regarding business paks) to enable IBD to handle the complaint.

Most general 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 dispute resolution (IDR) systems in place 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 concerns can be clarified with a single telephone call. If the matter cannot be resolved after 20 working days, it may be passed onto 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. There is no right of appeal and non-acceptance does not jeopardise the consumer's right to take alternative legal advice.

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 NIBA, while consumer representatives are appointed in consultation with the Consumers' Federation of Australia and members of the wider consumer movement.



MR RICHARD SMITH BA, BEc
AGE: 64
CHAIRMAN

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.



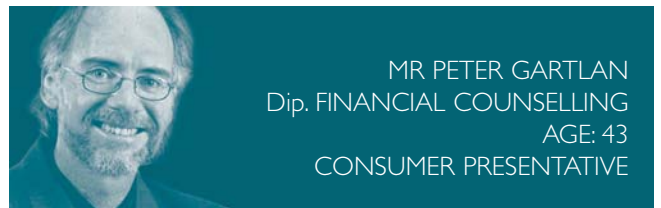
MR NOEL PETTERSEN
NIBA CEO AGE: 56
INDUSTRY REPRESENTATIVE

More than 15 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.



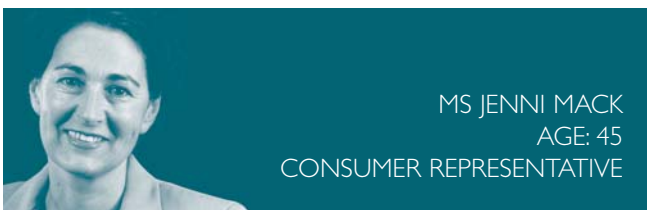
MR ROBERT ELDER
AGE: 68
INDUSTRY REPRESENTATIVE

More than 25 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, and a NIBA board member for 10 years.



MR PETER GARTLAN
Dip. FINANCIAL COUNSELLING
AGE: 43
CONSUMER REPRESENTATIVE

More than 20 years' experience as a company director and 20 years' experience as a financial counsellor; human services co-ordinator and youth worker on a casework and policy reform level. 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. Current board member of the Consumers' Federation of Australia.



MS JENNI MACK
AGE: 45
CONSUMER REPRESENTATIVE

More than 15 years' experience in the consumer movement. Director of the Australian Consumers' Association. Former Executive Director of the Consumers' Federation of Australia, Director of the Financial Industry Complaints Services Ltd and Director of the Travel Compensation Fund. Conduct panel of the Migration Agents Registration Authority and involved with the Financial Services Consumer Policy Centre at the University of New South Wales.

MEETINGS OF THE BOARD OF DIRECTORS

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

DIRECTOR	HELD	ATTENDED
MR RICHARD SMITH	4	4
MR NOEL PETTERSEN	4	4
MR ROBERT ELDER	4	4
MR PETER GARTLAN	4	4
MS JENNI MACK	4	4

OUR PEOPLE – OUR STRENGTH

Although operating as a micro-scheme, IBD employs highly qualified and skilled professionals whose expertise and work ethic contributes significantly to the quality of the services provided by IBD.

IBD has one full-time and one part-time employee. In addition, IBD also engages the services of the Banking and Financial Services Ombudsman (BFSO) when staff are on leave, if there is a work overload or for special working projects (such as the review). Specified staff of the BFSO have been trained in the day-to-day procedures of IBD and are readily accessible if needed by IBD. Philip Field from the BFSO has been appointed as liaison officer to manage the work arrangements with IBD.

This relationship has proven very beneficial and will be increased in the future. It also supports the objective to utilise different skills and expertise of the different schemes and promotes staff exchange.

IBD also uses the Referee on a consultancy basis to issue determinations and provide specialised advisory services to our staff and the Board.

DANIELA KIRCHLINDE, GENERAL MANAGER

Daniela Kirchlinde has broad insurance industry experience, having worked for both brokers and insurers in Australia and overseas. She held the role of Complaints Manager of the IBDF since its inception in 1996 and was re-employed by IBD as its General Manager upon establishment. Before joining the IBDF, she worked for an Australian insurer as Intermediaries Underwriting Manager; where her responsibilities included investigating client complaints, analysing statistical data and improving client services. Previously, she worked for two years for a reinsurance broker at Lloyd's. Ms Kirchlinde has a Bachelor of Commerce degree from Cologne University, speaks three languages and holds the German equivalent of Associate of the Australian and New Zealand Institute of Insurance and Finance, plus a Graduate Diploma in Finance and Investment from the Securities Institute of Australia.

ELIZABETH BAMUNDO

Elizabeth Bamundo assists the General Manager in initial complaints-handling, administration and membership queries on a full-time basis. Ms Bamundo has previously worked in secretarial and administration roles and has extensive experience in dealing with customers.

DAVID LETCHER, REFEREE

David Letcher has been IBD's Referee since the inception of the former scheme in 1996. Complaints made to IBD and alleged breaches of the Insurance Brokers Code of Practice which cannot be conciliated by the General Manager are passed to him for final determination. He has authority to make orders and impose sanctions or orders which are binding on members.

Mr Letcher has 40 years' insurance law experience and has conducted many seminars on insurance law as well as consumer and regulatory issues. His experience has included litigation in the Magistrates, County, Supreme, Federal and High Courts. His work has also involved policy drafting, document preparation and government submissions.

Mr Letcher is well known for his views on ethical issues such as fraud, the duty of utmost good faith and the proper conduct of negotiation and litigation. He has been a Partner of Norris Coates, Solicitors since 1965 and is a Member of the Law Council of Australia, the Australian Insurance Law Association and the Insurance Council of Australia's Anti-Fraud Task Force.

PETER COLDBECK, ALTERNATE REFEREE

In 1997 IBD appointed Peter Coldbeck as an alternate Referee in case David Letcher was unavailable. This has occurred once since the appointment.

Mr Coldbeck was admitted to practice in 1962 and was a partner with Melbourne law firm Hall & Wilcox between 1964 and 1999. He has wide experience in insurance law, and was involved during his career in a large number of reported landmark cases. He has had papers published and has been a speaker at insurance and insurance law conferences in Australia and overseas. He is a former National President and a Life Member of the Australian Insurance Law Association and a former Member of the Insurance Council of Australia's Anti-Fraud Task Force.

I. REPORT BY THE CHAIRMAN, MR RICHARD SMITH

THE IBD SCHEME

It gives me pleasure to advise that 2005 was IBD's third successful year as an independent dispute-handling scheme approved by ASIC. NIBA commenced the scheme in 1996. The IBD scheme is one of seven dispute-handling schemes operating in the insurance, banking, credit union and financial services industries. Other major schemes are the Banking and Financial Services Ombudsman, the Insurance Ombudsman Service and the Financial Industry Complaints Service (FICS).

IBD is funded by insurance brokers and other financial intermediaries such as underwriting agents who provide insurance services to retail and small business customers.

IBD OBJECTIVES

The aim of IBD is to provide a free dispute-handling service to customers who cannot resolve a dispute with an IBD member through normal channels (internal dispute resolution). If IBD cannot resolve a dispute through conciliation the matter is referred to an independent referee for determination. The Referee's determination is binding on members, thus eliminating more costly and lengthy legal processes. Customers, on the other hand, may also seek legal redress if they are not satisfied with the Referee's determination and they think it is in their interest to do so.

THREE KEY DECISIONS

During the year the Board considered three key areas in particular of concern to members and consumers. These are:

In response to a complaint that raised the issue of privacy of information provided to IBD, the Board formally decided that IBD would not make information provided to it available to other parties, including other dispute-handling services, unless specifically authorised to do so by the person providing the information.

Secondly, IBD will ensure that any complaints about IBD's own processes or handling of a dispute are directed to an independent party, normally the Chairman of IBD, rather than to someone previously involved in handling the matter.

Notwithstanding that the complainant who raised these issues was successful in his claim against the insurer, he has referred these matters to the Privacy Commissioner. We await the outcome of that referral.

Thirdly, the IBD Board directed in the interests of fairness and equity that IBD staff should discontinue the service of providing industry

information about product availability. While such information was often useful to those seeking it, there was always the risk of discriminating in favour of or against broker members. IBD considers it is not appropriate for an independent dispute-handling scheme to provide that service.

INDEPENDENT REVIEW BY THE NAVIGATOR COMPANY PTY LTD

The Navigator Company Pty Ltd was commissioned by IBD in May 2005 to conduct an independent review of IBD in accordance with ASIC's requirement that as a matter of good management, schemes should be independently reviewed every three years. The Navigator Report was submitted to the IBD Board and ASIC in November 2005.

The Navigator Report notes that IBD:

- has established itself financially;
- has had a positive influence on standards in the insurance broking industry;
- has extended its coverage beyond the strict letter of its obligations;
- has raised difficult jurisdictional issues (in the course of the review); and
- has taken steps to establish its full independence, including physically relocating to premises with other independent dispute resolution schemes.

The review is structured around six benchmarks contained in ASIC's policy statement 139 relating to external dispute resolution (EDR) schemes. Those benchmarks are:

- Independence;
- Accessibility;
- Fairness;
- Accountability;
- Efficiency; and
- Effectiveness.

Under these headings the review makes 28 recommendations, some of a general or structural nature, and some specific. In broad terms the IBD Board agrees with the thrust of the recommendations, some of which are already being acted upon.

STRUCTURAL RESPONSE TO THE NAVIGATOR REPORT

The Board is in general agreement with the recommendation that IBD forge closer links with other EDR schemes (Section 10.4). We note the strong recommendation in this regard that it "is only by drawing on the resources and experience of other schemes that IBD

can achieve the sustainable best practice that we believe it needs to meet in the coming years".

In broad terms it is our intention at this stage (subject to negotiation and agreement with the BFSO) to further develop and strengthen our current relationship with the BFSO.

More specifically we propose to abolish the current General Manager position. Under the proposal that position will be replaced by a full-time Complaints Manager employed on a shared basis with the BFSO. This should enable a standardisation of approach to complaint-handling and systems between the two organisations, giving IBD access to leading-edge processes in this regard.

It is also proposed that the administrative, reporting and compliance tasks of the current General Manager be undertaken on a part-time basis by a Compliance Manager. That person will be responsible for systems to produce required reports, quality assurance of complaint-handling processes, identification and reporting of systemic issues, promotion and presentation matters including preparation of monthly statistics, maintenance of the IBD website, preparation of brochures and drafting of the Annual Report, initial handling of any complaints against the IBD service, and general management of the facility.

IMPROVED PROCESSES

The new structure should enable IBD to address the more detailed recommendations relating to both complaint-handling generally and more specifically the preparation of determinations by the IBD Referee. Our Referee has taken on board the procedural recommendations designed to ensure an enhanced consumer perception of his decision-making.

We have noted in particular the view that IBD processes can sometimes be biased, or at least be seen to be biased, against the complainant. This will entail more detailed determinations with particular emphasis being given to setting out in some detail both sides of each dispute and the basis for the each decision. The Referee's determinations will continue to be publicly available on the IBD website.

Over the period ahead the IBD Board will address all of the Navigator Report recommendations.

Specific Recommendations for Early Attention

The Navigator Report commented on the scheme's jurisdiction

under ASIC's "accessibility" benchmark and recommended that the current coverage (matters up to \$50,000 and small business matters up to \$5000) "must change as a matter of priority" (Section 2.2).

There are two reasons why these limits have remained so apparently low.

The first is that IBD's jurisdiction under the Financial Services Reform Act does not extend to small business. Thus some of IBD's members were opposed to including "small business" matters at all. The compromise was the relatively low limit of \$5000, which is often the excess amount under professional indemnity cover.

It needs to be understood that IBD decisions are binding on insurance brokers and their professional indemnity insurers. Thus brokers and their PI insurers give up their right to contest these disputes in the courts. For this reason PI insurers set a limit to the amount to which they were prepared to be bound under IBD.

The second reason for the relatively low limit for IBD disputes is that if the financial limits of the scheme are set above the level that PI insurers support, then the brokers themselves carry the risk.

The positive news in this regard is that PI insurers have indicated they would support an increased limit to \$100,000.

The Review also noted the relatively low public profile of the scheme, but the authors concluded that they "do not think any great additional expenditure can be justified in pursuit of a higher public profile" (Section 5.1.1). However, for a relatively low-cost investment they consider "IBD can gain a significant benefit in consumer understanding of the purpose of the scheme and ability to find the scheme" by changing its name to Insurance Broking Ombudsman (or similar). As Chairman I agree and hope that a name change along the suggested lines can be made in 2006.

More Specific Board Responsibilities

Boards such as the IBD Board can generally improve their performance and accountability by deciding in advance what each member of the Board should personally seek to achieve in the period ahead. We have decided to do this for 2006.

Board members have undertaken to read all the Referee's determinations and actively discuss any significant issues arising out of them. These determinations are possibly the most important "output" of the scheme. We will raise key issues with other Board

members at our regular quarterly meetings. As mentioned above, these important determinations are available on the IBD website.

Noel Pettersen, as industry association representative on the Board, is best placed to keep the Board up to date on industry and legislative developments.

Peter Gartlan will draw on his financial background to oversee the long-term strategic financial planning of IBD. He will particularly monitor any possible external threat to our long-term viability.

Jenni Mack will address consumer awareness and accessibility issues, particularly in the light of comments about our low public profile contained in the Navigator Report.

INSURANCE BROKERS CODE OF PRACTICE

The Insurance Brokers Code of Practice needs updating to take account of legislative and other changes. Noel Pettersen, through NIBA, requested that John Hanks as consultant review the Code and that work is progressing.

John Hanks provided the IBD Board with a draft for a revised code in July 2005. Our next step will be to finalise the wording of the Code and determine under our proposed new structure who will be responsible for appropriate administration of the Code.

CONCLUSION

2005 has been a busy year in which IBD has matured and grown. The scheme is fundamentally sound and is providing a very worthwhile service to insurance brokers, other financial intermediary members and their clients. It focuses on a small number of claims and provides a personalised, experienced service. It is a relatively simple scheme that resolves disputes in a practical and low-cost way without recourse to legal representation.

The scheme specialises in an area of dispute resolution, particularly insurance broking, which is traditionally not well understood by complainants or those administering other dispute resolution schemes. The success of the scheme is largely due to the General Manager and Referee who have exceptional qualities for their positions.

I look forward to 2006 and the implementation of many of the Navigator Company's Review recommendations which should secure our future and further enhance the scheme's standing as an independent external dispute resolution scheme.

2. REPORT FROM THE REFEREE, MR DAVID LETCHER

This is my ninth annual report in respect of my activities as Referee for IBD.

In 2005 I issued 14 determinations plus one supplementary decision. For various reasons some of the matters referred to me in 2005 were not the subject of decisions issued until January 2006. There were an additional eight decisions including one supplementary decision in that category.

Effectively this means that there have been 23 decisions issued by me arising out of referrals in 2005 of which two were supplementary decisions.

The General Manager has set out statistics and details of matters referred to IBD in the body of this report. Decisions by me were approximately equally in favour in the broker/underwriting agent and the complainant for those complaints decided in 2005 and the subject of the annual statistics. In respect of the eight additional decisions brought down in the first half of January 2006, they were also equally in favour of the broker/underwriting agent and the complainant.

Statistics are notoriously capable of different construction and viewpoint, but in my opinion it is a reasonable general conclusion to say that where matters come to this Referee, then at present the decisions which I make appear to fall about equally in favour of the complainant and the party against whom the complaint is made. In other words, complainants have a 50% success rate.

Of course, writing decisions is not all that is required of the Referee. There are many complaints which for one reason or another do not become the subject of a determination but where the Referee provides advice or comments or suggested avenues for further enquiry to the General Manager. For one reason or another some matters which are referred do not need to be the subject of a written determination.

REVIEW

During the course of 2005 IBD was subject to the regular independent review required by the Terms of Reference.

All organisations benefit from a regular review, and IBD is no different. The Chairman's Report refers to the Review, but it has impacted on all aspects of IBD operations and I therefore comment on how it has affected the Referee.

With the increase in the numbers and scope of consumer complaint organisations and the refining of the processes employed by such

bodies, it has become clear that it is always possible to do better. The Review suggested various ways in which the determinations which I make might be made more understandable to the parties involved. I have taken those suggestions on board.

Readers of the determinations will therefore notice a slight change in format and reference to various matters such as the specific section of the Insurance Brokers Code of Practice which is relevant.

There are always problems where any person exercising a decision-making jurisdiction must choose between two arguments. Inevitably there will be one disappointed party in respect of any decision. It is only human nature that the party who has not obtained a decision in its favour will suggest various reasons why this has happened. From my experience these range from suggestions of lack of intelligence, industry understanding and competence to conspiracies between members of the industry. There is no real difference in the attitude of unsuccessful parties whether they are the complainant or a broker or underwriting agent.

It is difficult to find any objective criteria to assess the results of decisions about complaints. One method might be to ascertain how many unsuccessful complainants have subsequently taken the legal path in their dispute with the broker/underwriting agent. Unfortunately, IBD has little or no information in that regard and it may well be that this is an unlikely and exceptional course of action in any event.

The best way to handle these questions appears to be to ensure that the decision-making process is as clear to the parties as possible. My determination must make it obvious to the parties that all relevant issues have been explored and considered and that each of the parties has been given an opportunity to comment in respect of each such issue.

Unfortunately, many complaints involve numerous fact issues. Many complainants and brokers/underwriting agents throw into the melting pot numerous facts and issues, many of which are of doubtful relevance. It is extremely difficult to go into each such matter in detail to satisfy the concerns of every party. Inevitably there will be parties who consider that certain matters are very relevant and have not been the subject of intensive investigation, discussion and analysis.

EVERGREEN ISSUES

From year to year in my annual report and in determinations during the year, I refer to various matters which appear to be a constant source of problems for brokers and underwriting agents and their

clients. This past year has been no exception. I raise some issues in this report, although the regular industry reader will note that they have previously been the subject of mention in other annual reports by me.

PREMIUM FUNDING

It would appear that premium funding is becoming more popular among business operators who see it as a way of spreading the costs of insurance over the year. This is particularly the case because of the spike in liability and related insurance premiums which occurred a few years ago. Problems inevitably arise where the policy is cancelled mid-term.

Not only is an insured faced with a refund of premium which may not be made on an exact pro rata basis, but the premium funder will require the premium funding payments to continue pursuant to the premium funding agreement, which is not an insurance policy but a separate loan agreement.

Unfortunately, some brokers continue to provide limited information and/or warnings to insureds about what may happen on cancellation of the policy mid-term. Equally, many insureds apparently do not look on the premium funding arrangement as anything other than an arrangement to pay the premium by monthly instalments.

I have had several cases where an insured has signed a premium funding agreement which is clearly a loan agreement but subsequently says that he or she thought it was only an agreement about payment of the premium by monthly instalments.

Brokers can assist themselves in this area by making it quite clear to insureds that although the broker is assisting in the premium funding arrangement by forwarding documents, those documents represent a separate loan agreement and are not part of the underwriting policy arrangement with the insurer.

Further, brokers can help themselves by providing a clear and detailed notice to the insured in those circumstances to the effect that if the policy is cancelled mid-term then not only will the insured not receive a pro rata refund of premium and not only will the broker's fees and commission also be payable (not all brokers retain more than pro rata commission but some do), but that the insured may well be out of pocket because the insured will be required to pay all those premium funding charges, including interest, which will be owing to the premium funder unless the insured is able to reach some agreement with the premium funder about an early discharge of the lending agreement.

IBD has no jurisdiction in respect of most premium funding providers and is usually not in a position to make any orders in relation to the entitlement of the premium funder.

Brokers may consider that the position is now such that there should be some general industry arrangement with premium funders about how to treat cancellations mid-term to provide some reasonable refund if the loan is effectively repaid in a lump sum before the expiry date.

The answer to these problems lies in the hands of the industry which supports the premium funders. I do not think that it is practical to suggest that a complainant should be expected to make a second complaint against the premium funder and its relevant complaints authority. Brokers should take the initiative in their own interests and resolve the matter on an industry basis with the premium funders.

PAPERLESS PROPOSALS

With the increasing use by consumers of the internet and computer-generated insurance arrangements, many policies are now effected by brokers and underwriters using a question-and-answer response document which can be completed online. In my experience when problems subsequently arise about issues such as non-disclosure, or even more basic issues such as the period of risk and terms and conditions of the policy, it is sometimes found that the originating document did not ask the appropriate question or the insured did not provide an answer to a question, or that the traditional terms and conditions were just not in evidence on the screen.

The answer to these problems lies with the industry. Brokers and underwriting agents must ensure that the information provided on the website or in an electronic fashion is adequate, complete and in particular that the relevant questions are asked and answered by the respondent.

It is no excuse to say that the use of the internet or other electronic transmission results in a cheap product if the result is unsatisfactory for the consumer. Cheapness of premium then becomes irrelevant.

Likewise, the industry should also ensure that it has systems in place to ensure that there is some evidence of the arrangement which has been made electronically. IBD has had cases in the past year where a consumer either denied having received an electronic transmission, said he did not know if it had been received because the computer or system had been thrown out and superseded, disputed the nature of the information contained on the electronic transmission, or said that email was not a satisfactory commercial communication.

Brokers and underwriting agents can clarify all these matters when communicating with consumers electronically and should do so. Further more, responses can be required even if it is only to confirm the receipt of an email.

RESTRICTIONS ON COVER

Despite previous comments in past annual reports, including the last report, IBD continues to receive complaints about the failure of a broker to provide (in the schedule of cover delivered with or in the same document as a renewal tax invoice) particulars that are vital to the operation of the policy. These include endorsements concerning security, such as where cover is only provided when the vehicle is in a locked garage, or in respect of equipment such as a motorised water ski, where the equipment is chained, locked inside a building and/or otherwise protected with some form of ignition locking system.

Where an insurer considers it appropriate to include those details on the annual invitation to renew which the insurer sends to the broker, then brokers must accept their obligation to include that information in the separate renewal documentation which the broker forwards to the insured.

It is insufficient to say that the insured was aware of the requirement/endorsement/restriction on cover either because the insured made some comment in the proposal as to security or there was an endorsement issued at some stage during the currency of the policy, or the policy provided that some form of security was a term and condition of the policy.

These are all matters which should be drawn to the attention of the insured annually on renewal.

Another recent restriction which has only come to my attention this year is the fact that one prominent national insurer now provides that in certain classes of commercial cover, there is no premium refund where a policy is cancelled mid-term. Presumably that is because there is some type of industry scheme involved. Such a restriction, which might be unexpected on the part of most insureds, should be noted by the broker on renewal documentation to the insured.

Even if matters such as security and premium refund are drawn to the attention of an insured at policy inception and appear on the documentation issued at that time, including policy wording, they are such vital matters that in my opinion they should be noted on the renewal documentation particularly where the insurer considers it appropriate.

CANCELLATIONS/REFUND OF PREMIUM/COMMISSION/BROKERAGE

As I have noted above when discussing problems with premium funding, cancellation of a policy mid-term can also involve problems in regard to brokerage and commission. If an insured cancels early on in the insurance year, the broker may insist on payment of brokerage and commission, depending on the terms of the agreement between the broker and the insured.

Not all insureds will have thought about this possibility, although many of them may be engaged in industries where there is a high turnover of businesses or vehicles which are the subject of the policy so that mid-term cancellation is highly likely.

Brokers, in their own interests, should make quite sure that they fully discuss with insureds the results of mid-term cancellation particularly as it affects possible refunds of brokerage and commission. Where commission is a substantial part of a premium, there may well be dissatisfaction on the part of the insured if the agreement with the broker provides that the broker is entitled to retain his commission. An insured may have no idea of the amount of that commission unless the broker advises him of the position before cancellation.

Brokerage fees can be substantial, and many brokers charge a cancellation brokerage fee.

If a broker does not disclose the amount of all these fees to an insured who approaches the broker concerning cancellation, then it may well be that an insured is in a position to say that the failure to disclose the amount of all those fees is misleading. That is because any decision which the insured makes about whether or not to cancel the policy will not be made from a position of knowledge as to the amount which will be refunded.

Most insureds appear to consider that the appropriate refund will be a pro rata refund and ignore the subtleties of the manner in which insurers calculate refunds, the effect of the commission particularly if the broker retains the full amount, the effect of brokerage if retained and the fact that there may be a brokerage fee on the cancellation.

INDUSTRY FEEDBACK AND SUPPORT

One of the strengths of IBD is the fact that it was originally set up by insurance brokers through NIBA and in general has the support of the industry. Not all consumer organisations have the benefit of strong industry support. I encourage insurance brokers and

underwriting agents to continue to communicate frankly and frequently with IBD in their own interests.

Even where a determination is made against a broker or an underwriting agent, IBD and this Referee welcome comment and response. IBD provides a service to the industry and not just to complainants. Brokers and underwriting agents must take determinations on the chin but there is no reason why they should not respond to determinations if they wish to do so.

This Referee will always consider fresh facts or information if, for one reason or another, they have not come to light during the decision-making process.

IBD is the industry complaints body and members of the industry should work to ensure that it remains so rather than becoming a policeman imposed by force on the industry. We must all be willing to learn and do better.

3. COMPLAINTS ANALYSIS

The following charts provide a general analysis of telephone and written contacts, enquiries and complaints and more detailed statistics in regards to written complaints received by IBD for the period from 1 January 2005 to 31 December 2005 (the reporting period) and their progress as at 31 December 2005.

3.1 GENERAL ANALYSIS OF CONTACTS, ENQUIRIES AND COMPLAINTS

IBD keeps general statistics in regard to contacts, enquiries and complaints received by the facility.

Basic information is obtained for telephone contact, enquiries and complaints. More detailed statistics are kept for written complaints. Information on telephone contact, enquiries and complaints can only be collected when practical in the course of the telephone call, as sometimes consumers want to stay anonymous when they call for advice only, or it does not appear appropriate for the facility to request further details from the consumer.

3.1.1 CONTACTS

Contact with IBD can be made via:

- The Financial Ombudsman Service (FOS) local call rate number 1300 780 808
- The IBD toll-free number 1800 064 169
- IBD direct line 03 9620 0177
- IBD website www.ibdltd.com.au
- IBD email info@ibdltd.com.au, and
- IBD fax 03 9620 0166

FINANCIAL OMBUDSMAN SERVICE 1300 780 808

The Financial Ombudsman Service (FOS) is advertised as the first telephone contact point for consumers wishing to access a financial services dispute resolution scheme. Consumers call 1300 780 808 and an enquiry officer refers them to the most appropriate scheme. Through usage of a common telephone system, callers can also be transferred directly from one complaint scheme to another.

The following schemes currently participate in the FOS:

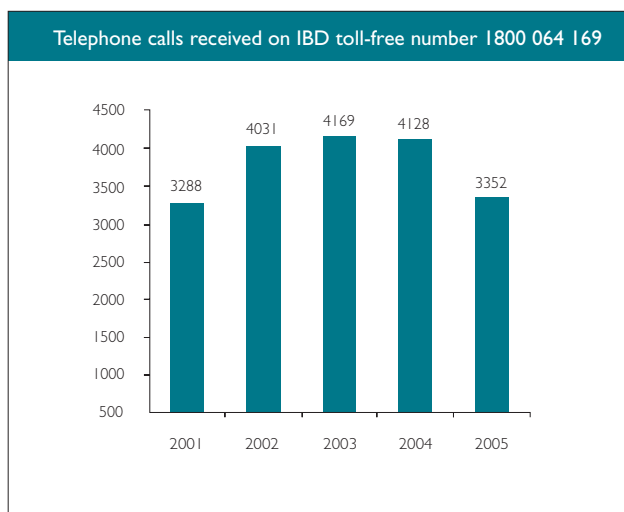
- Banking and Financial Services Ombudsman (complaints against retail banks, their affiliates operating in Australia and some non-banks);
- Credit Ombudsman Services Limited (complaints against individuals, firms and corporations operating in the credit industry);
- Credit Union Dispute Resolution Centre (complaints against credit unions);
- Financial Industry Complaints Service (complaints against providers of financial services and products, including life insurance, finance advice, pooled superannuation, managed investments, stockbroking, some friendly societies and other financial service providers);

- Insurance Brokers Disputes Limited;
- Insurance Ombudsman Service (complaints against insurance companies and underwriting agencies);
- Superannuation Complaints Tribunal (complaints in regards to superannuation, including superannuation funds, approved deposit funds, retirement savings accounts and annuities provided by life companies).

The FOS answered a total of 155,896 calls for the reporting period, an increase of 7% over the previous year's total of 145,351. The average monthly abandonment rate was 2.95% and the average time before calls were abandoned was nine seconds.

Of the calls answered by the FOS, only 0.2% were directed to IBD staff as matters concerning IBD members. An average of 14% were provided with referral details to organisations other than those participating as listed above.

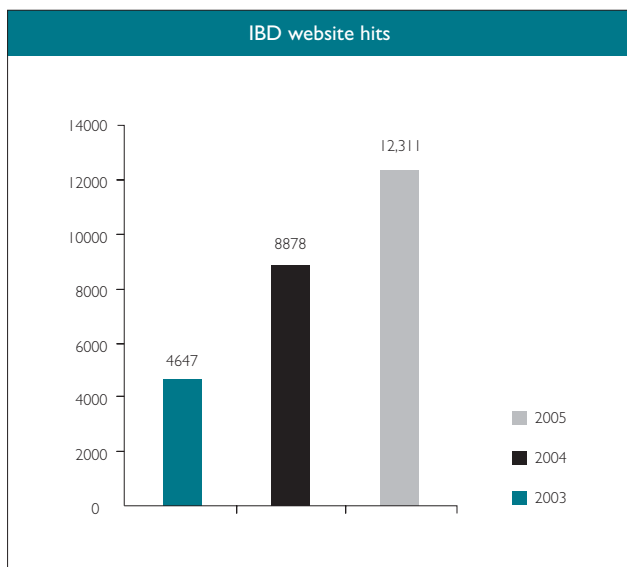
IBD TOLL-FREE NUMBER 1800 064 169



- A total of 3352 calls were received on the IBD toll-free number, which is a decrease of 19% on the previous year's calls (4128).
- As IBD is now participating in the FOS, we have changed all our advertising to the FOS number (1300 780 808) as the major contact number for IBD in all White Pages Australia-wide. This will have an effect on future statistics covering usage of IBD's unique contact numbers.

- IBD also advertises its services to consumer advice bureaux, legal aid centres, libraries and other consumer aid facilities and provides them with necessary information on a regular basis.
- Telephone calls include enquiries regarding existing complaints, general insurance enquiries, referrals for hard-to-place business or specific risks, referrals to other complaint schemes and relevant bodies, enquiries regarding membership and about members and general enquiries regarding the services provided by IBD.

IBD WEBSITE www.ibdltd.com.au



- Hits on the IBD website increased by 39% to an average of 1025 per month.
- IBD has recently updated its website, including relevant links to other complaint facilities and complaint-related services.
- IBD is also currently improving its assistance to consumers wishing to lodge a complaint online. A training module has been developed to assist consumers. It is expected to be available online by mid next year.

3.1.2 TELEPHONE ENQUIRIES

A telephone enquiry is any call to any of the IBD telephone number or the FOS regarding a general enquiry over membership, IBD, insurance or a complaint enquiry, including enquiries where IBD only provides complaint advice or the call is being referred to another facility. Calls relating to existing complaints are not included in this table.

	2005	2004	2003
TOTAL ENQUIRIES	24%	14%	33%
Member query	47%	32%	51%
General enquiry re IBD	3%	10%	17%
General enquiry re insurance	50%	58%	32%
TOTAL COMPLAINTS	49%	66%	44%
Complaint (advice only)	74%	70%	48%
Complaint (sent complaint form)	26%	30%	52%
TOTAL COMPLAINTS REFERRALS	27%	22%	23%
Referred to Insurance Ombudsman Service (IOS)	49%	83%	62%
Referred to Australian Securities and Investments Commission (ASIC)	11%	10%	18%
Referred to Australian Prudential Regulation Authority (APRA)	0%	0%	9%
Referred to Financial Industry Complaints Service (FICS)	9%	5%	7%
Referred to Superannuation Complaints Tribunal (SCT)	0%	0%	3%
Referred to Mortgage Industry Ombudsman Scheme (MIOS)	0%	1%	1%
Other	31%	0%	0%

- From the telephone enquiries:
 - 24% were regarding general enquiries with a nearly even split for IBD membership enquiries and general insurance enquiries;
 - 49% were regarding complaints concerning IBD members;
 - 27% were complaints which were referred to other complaint facilities with most of the calls being referred to the Insurance Ombudsman Service.
- The high number of referrals to the Insurance Ombudsman Service is due to two issues:
 - Consumers are not fully aware whether they are dealing with a broker or with an authorised representative from an insurance company, as the relationship is often quite

personal and they just deal with “Mr Smith”. Thus calls are incorrectly referred to IBD when they should be referred to the Insurance Ombudsman Service in cases where “Mr Smith” is an authorised representative or a salesperson for an insurance company.

- Consumers believe that a broker is at fault when an insurer denies a claim due to some issues raised by the assessor. Sometimes this decision has nothing to do with the broker, being purely a decision made by the insurer and/or assessor working on behalf of the insurer and should be referred to the Insurance Ombudsman Service.
- From the telephone complaints received by IBD, 74% were resolved directly by talking to the consumer and the member involved, clarifying the situation and providing appropriate conciliation advice to rectify the situation. In the other 26% a complaint form was sent to the consumer for lodgement of a written complaint when no immediate conciliation result could be achieved.
- It is noted that only 22% (48 from 215) of the complaint forms dispatched were returned to IBD for lodgement of a formal complaint. We can also assume those not acted upon further were resolved by the member after the initial contact by IBD or the consumer took alternative advice.
- IBD due process is as follows:
 - IBD receives a telephone call from a consumer and assesses if the involved party is a member of IBD and if the complaint is within the scope of IBD.
 - IBD provides general guidance to the consumer regarding the complaint and refers the complainant to the appointed complaint manager of the involved member.
 - IBD contacts the member and advises of a telephone complaint received with the strong suggestion to contact the consumer to clarify the situation – known as internal dispute resolution (IDR).
 - If appropriate IBD forwards a complaint form to the consumer for lodgement of a formal written complaint.
- If IBD is unable to assist directly, IBD still tries to provide appropriate advice to the consumer and member.
- If a consumer is not willing to further negotiate a matter with a member, a formal written complaint can be lodged without having passed through the member’s IDR process. This occurs

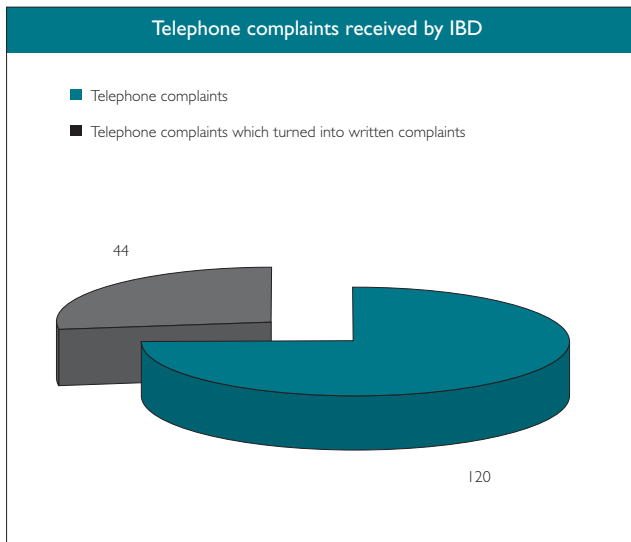
sometimes when there is a total communication breakdown between the parties or strong emotional involvement.

- As a result of the IBD audit in 2005 it was noted that all members now have a written IDR process in place. However, there still needs to be improvement regarding appropriate benchmarks and early recognition of a possible complaint.
- According to ASIC policy statement 135, the current requirements for IDR procedures include:
 - Satisfaction of the essential elements of complaints-handling in section 2 of Australian Standard for Complaints-Handling AS 4269-1995;
 - Appropriately documenting the IDR procedures;
 - Having a system for informing complainants about the availability and accessibility of the relevant external dispute resolution (EDR) scheme.
- IBD strongly believes that establishment of clear policies and procedures will help:
 - To avoid disputes from arising by inviting customer feedback;
 - To clearly define the roles and responsibilities of all staff in the complaint-handling process and by ensuring that all staff are aware of the objectives, procedures and importance of the complaint-handling process;
 - Staff and customers to contribute to the continuing improvement of an organisation’s products and services.

3.1.3 TELEPHONE COMPLAINTS

Where appropriate, IBD is now collecting detailed information in regards to telephone complaints and allocates a complaint reference number. A complaint coded as a telephone complaint will change to a written complaint once a complaint form is formally lodged.

During the reporting period IBD recorded a total of 164 telephone complaints, of which 44 became written complaints.



The complaint pattern in regards to users of the scheme and nature of complaints follow the trends of the written complaints which are listed later in this report.

From all recorded telephone complaints:

- 86% were forwarded a complaint form;
- 75% were referred to the IBD member to make them aware of the complaint and to allow them to take appropriate action;
- 38% of cases saw IBD receive a response from the member after the complaint was referred to them to confirm the outcome. In 63% of these cases this response was received within one day after IBD referred the complaint to the member.

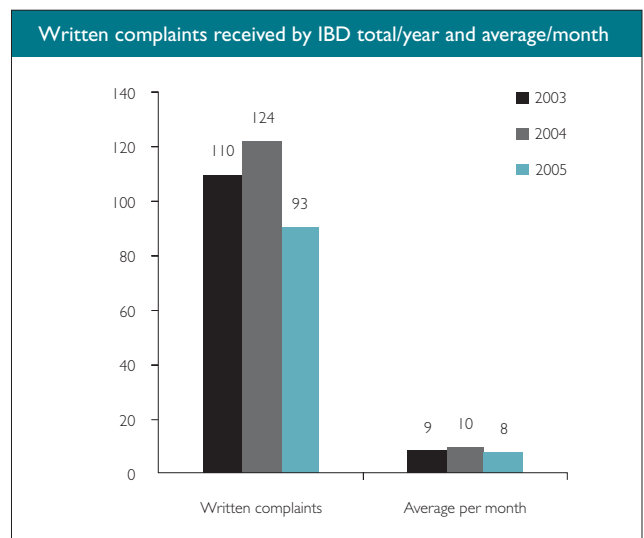
If no further correspondence was received from or contact made by the complainant and if the member did not advise IBD of the outcome of the matter, IBD followed-up the matter with the complainant to ensure it was resolved.

The outcome of these follow-up calls were as follows:

- 57% were resolved by the broker;
- 21% were withdrawn by the complainant;
- 6% of cases saw the complainant advised that legal action has been taken;

- 2% were referred to the Insurance Ombudsman Service;
- 1% were referred to ASIC;
- 1% were rejected by IBD as outside its scope due to the nature of claim involved.

3.1.4 WRITTEN COMPLAINTS



- Once a written complaint is received by IBD, it is included in the statistics for written complaints received and a complaint file number is allocated.
- The complaint is recorded on the IBD database and progress of the complaint is monitored on a regular basis.
- IBD registered 93 written complaints, which is a 25% decrease to the previous year's total (124).
- There was an average of eight written complaints per month.
- The decrease in written complaints suggests that 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.
- During 2005 IBD published articles in Insurance & Risk

Professional magazine and the NIBA Gazette to highlight IDR procedures.

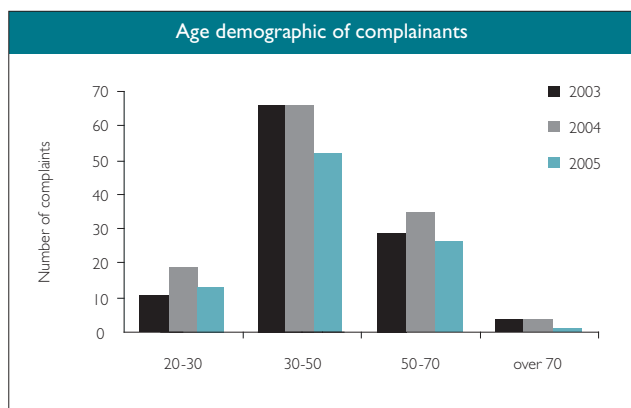
- IBD also actively participated in the Consumer Conference and the NIBA Convention. Both provided an excellent opportunity to speak to consumers and members on effective dispute resolution.

3.2 SPECIFIC ANALYSIS OF WRITTEN COMPLAINTS

The following detailed statistics relate to written complaints only. There were 93 written complaints lodged with IBD in 2005. The details of each complainant are obtained via the complaint form completed by each complainant and subsequent correspondence.

3.2.1 USERS OF THE SCHEME

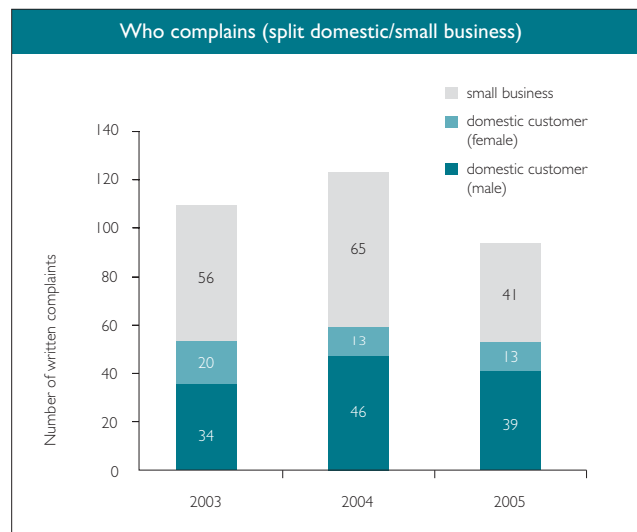
AGE DEMOGRAPHIC



- As requested by ASIC, IBD has been keeping statistics on the age of complainants since 2001.
- 56% of complainants were in the 30 to 50 years age group, with 29% aged between 50 to 70 years and 14% aged 20 to 30 years. Only one complainant was over 70 years. No complaint was received from a person under 20.
- IBD has participated in a stand at Annual Conference of the Victorian Commercial Teachers Association. The objective was to make teachers aware of the services provided by the Financial Services Ombudsman, in which IBD participates, and educate consumers from a young age about services provided by complaints facilities in the financial industry sector.

- Complaint forms and translating services are available in Arabic, Chinese and Vietnamese (and other languages if required) to cater for complainants who may lack proficiency in English.
- Only four complaints were received from consumers with English as a second language (three Italian and one Vietnamese). None of these matters required translation services.
- IBD established a link with a translation service to assist consumers with language difficulties. This has proved to be very beneficial.
- IBD has also advertised in various ethnic community newspapers to enhance knowledge and understanding of the service.

DOMESTIC VERSUS BUSINESS USERS



- 44% of complaints were received from small business operators, a slight decrease on last year (52%).
- However, this still suggests that IBD is equally used by domestic and business consumers, which is being addressed in the review regarding the difference in jurisdictional limits.
- Of the small business complaints, a significant number were from the transport industry, retail shops, clubs and leisure industry. But there were also various complaints from other service-related industries (cleaning services, consultancies).

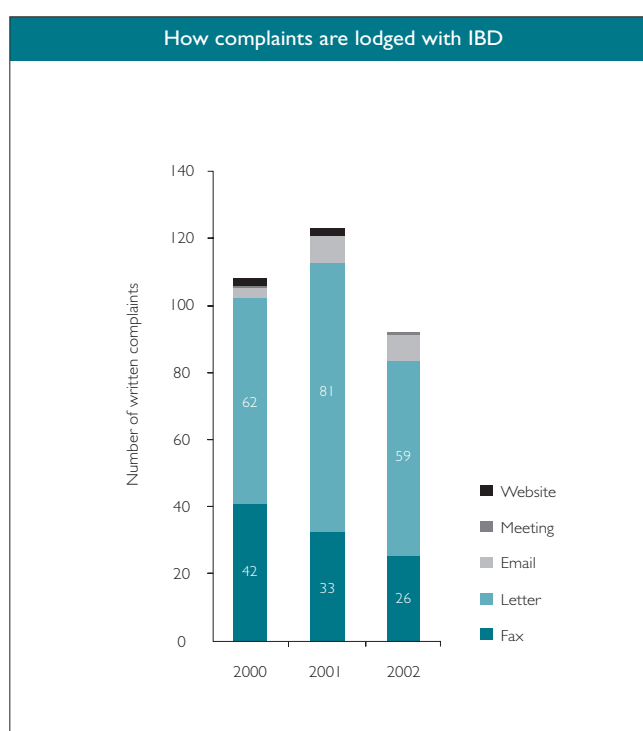
STATE DISTRIBUTION

	ACT	NSW	NT	QLD	SA	TAS	VIC	WA	TOTAL
Complaints metro	3	24	1	7	7	0	17	10	69
Complaints country	0	11	0	4	0	0	8	1	24
COMPLAINTS TOTAL	3	35	1	11	7	0	25	11	93
As % of total complaints	3%	38%	1%	12%	8%	0%	27%	12%	
Registered IBD members per state	8	285	3	137	54	10	219	90	806
As % of IBD members Australia-wide	1%	34%	1%	17%	7%	1%	27%	11%	
Population as % of total population in Australia as per Australian Bureau of Statistics March Quarter 2005	2%	33%	1%	19%	8%	2%	25%	10%	

- IBD compares the percentage of written complaints from each state to the total population in each state and the number of IBD members in that state. Most representations are consistent with the state's population and the number of IBD members.
- Country users of the scheme are those consumers living in the non-capital city statistical divisions identified by the Australian Bureau of Statistics. They make up 26% of written complaints.

3.2.2 ACCESSIBILITY

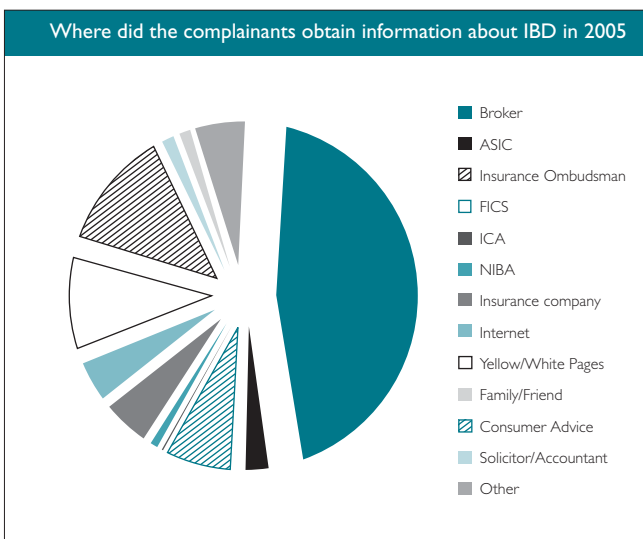
- 91% of written complaints are received via fax and letter.
- Email makes up 8% of written complaints.
- Email, if available, is also used as a preferred medium to correspond with consumers and members once a written complaint has been received.
- Although complaints can also be lodged directly via the IBD website, no complaints were received in this way.
- IBD is currently reviewing its website to make it easier for consumers to lodge a complaint online. In addition, IBD is also preparing a training module for consumers linked to IBD's website to provide assistance in lodging a complaint.



- 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 Insurance Brokers Disputes Limited (IBD), a free customer service, and the Insurance Brokers Code of Practice. Further information is available from this office.”

- IBD does not agree with the above text being supplied in a separate notice because there is too much risk of it being accidentally omitted.
- Furthermore, members must actively inform consumers orally and in writing when a potential complaint is being made.
- There still remains cause for concern that the majority of complainants learn of the availability of IBD through sources other than members. This is discussed in more detail under the section Systemic Issues in this report.
- 48% of complainants stated that they received direct advice about IBD from the member when the complaint occurred. This is an improvement in comparison to 27% last year; but is still not satisfactory.

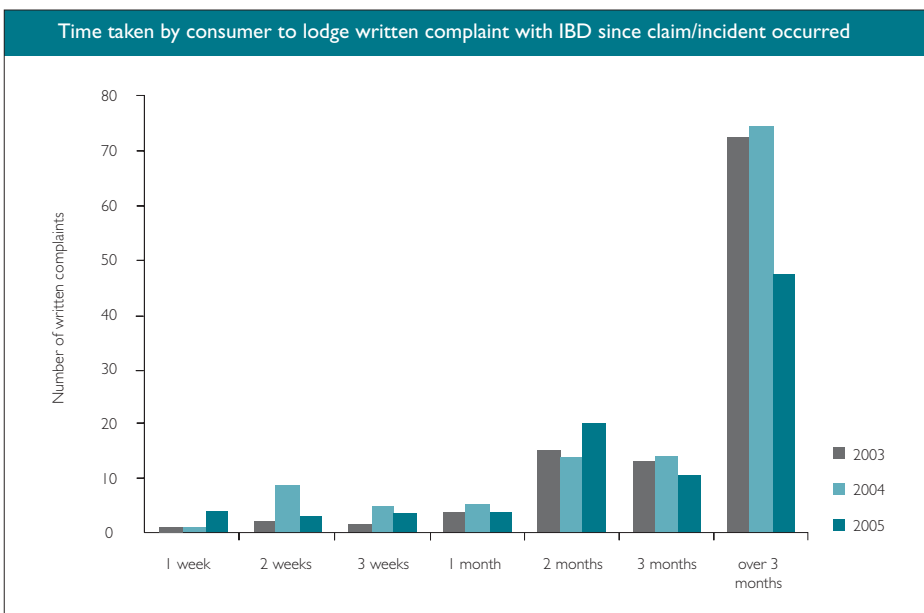
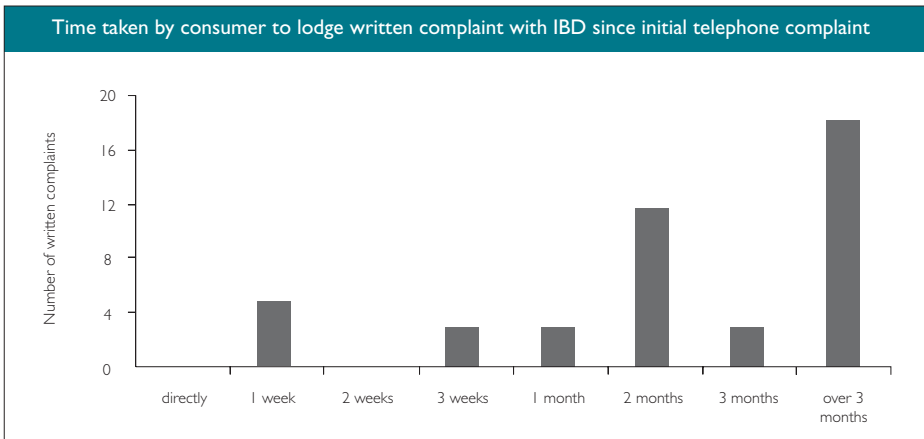
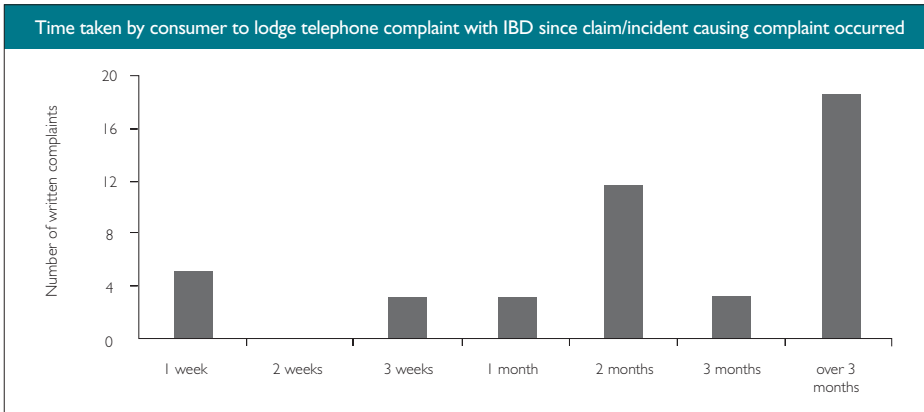


- Although IBD can confirm that all members have written advice about IBD on their notices, members need to make a concerted effort to ensure staff are fully informed that it is mandatory to offer this service to consumers in case of a complaint or potential complaint.
- A member cannot rely on a consumer to read the notice about IBD on their invoice or statement, but the member is requested to adequately advise the complainant about the services provided by IBD in case of a complaint or potential complaint – even if the member believes that the consumer is not dissatisfied.
- A copy of the IBD Terms of Reference and information brochure should be made available to consumers at no cost.

3.2.3 TIMEFRAMES

IBD promotes the following three-step conciliation/determination process:

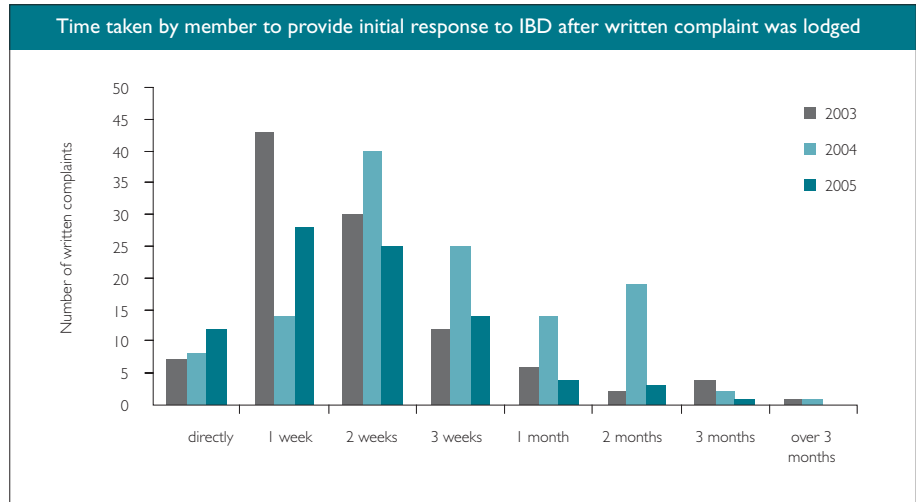
1. A member should first attempt to resolve the complaint with its own internal dispute resolution (IDR) scheme. IBD does not force a consumer to go through a member's IDR process if there appears to be a communication breakdown which would make further conciliation attempts inappropriate or if the consumer has already tried for an excessive period of time to obtain advice from the member.
2. If the complaint cannot be resolved within 20 days, the matter should be referred to IBD for conciliation. This timeframe might be delayed if further information is requested from the parties involved.
3. If the complaint cannot be conciliated within 20 days, the matter will be referred to the Referee for determination. This timeframe might be delayed if further information is requested from the parties.



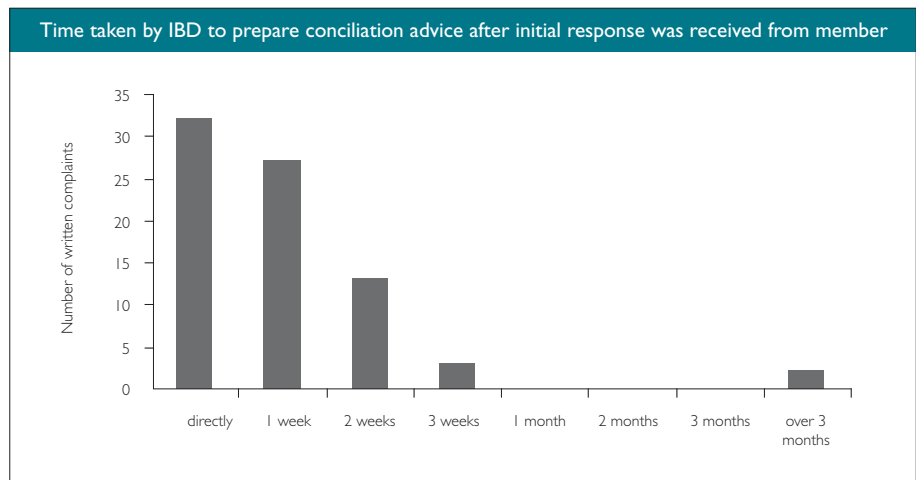
The comparison of the following time charts is interesting:

- Two-thirds of complainants wait for three months or longer after the incident or event that causes the complaint to occur before contacting IBD verbally and/or to lodge a complaint in writing. During that time they might have tried with no success to conciliate the matter with the member and/or the insurer and/or loss adjuster. Sometimes consumers have engaged the assistance of lawyers with no success before contacting IBD.
- It appears that some consumers wait another two to three months to lodge a written complaint with IBD after their initial telephone contact with the facility to discuss the complaint.
- Once a written complaint had been lodged with IBD, 70% of members responded to IBD within two weeks. This is a big improvement when compared to 49% last year.
- In only four cases members took 60 days or longer to provide IBD with a response, which is not satisfactory. Each of those cases were referred to the Referee.
- If there is a specific reason why the response of a member is being delayed (eg specific staff member involved in complaint is unavailable, specific information or documentation to clarify the matter is unavailable or it takes time to obtain the documentation), a member is urged to keep IBD advised accordingly.

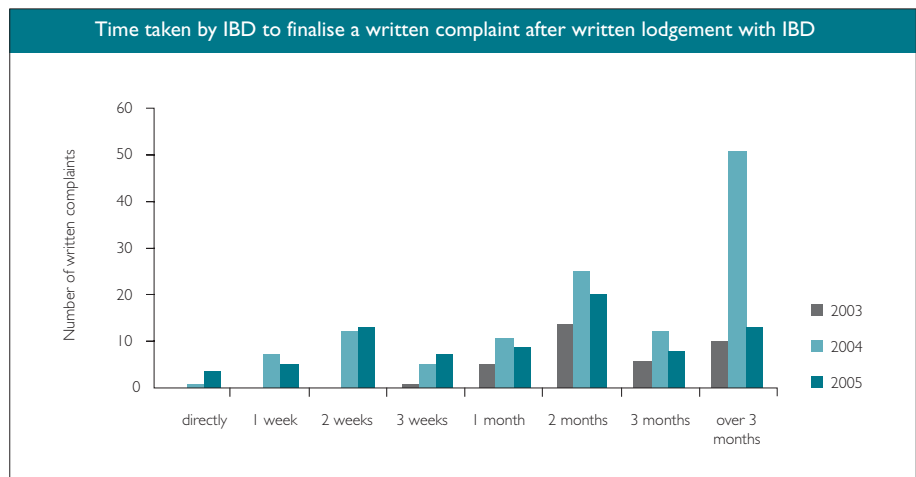
- In some cases the Referee determined that the member should pay interest on the outstanding claim amount, as the member did not take active steps to expedite the situation and resolve the complaint within a reasonable time.
- In 77% of written complaints, IBD provided conciliation advice to the consumer and member within two weeks after the initial response was received from the member.



- In some cases further information had to be obtained from the consumer and/or member before advice could be given.
- IBD emphasises in its procedures that complaints are to be handled effectively and in a timely manner to resolve a situation or provide appropriate advice. This allows the consumer to take alternative steps if the matter cannot be resolved by IBD to the consumer's satisfaction.



- 41% of written complaints were finalised within one month, with the remainder being finalised over 60 days or longer.
- Longer timeframes are required in cases where IBD and/or the Referee requested further information or documentation from the parties involved.



3.2.4 PRODUCTS INVOLVED IN COMPLAINTS

	2003	2004	2005
BUSINESS PAK TOTAL	34	43	19
Bus Pak General	20	28	8
Bus Pak Fire & Perils	3	0	1
Bus Pak Business Interruption	0	0	1
Bus Pak Burglary	4	2	5
Bus Pak Glass	1	1	0
Bus Pak Money	0	2	0
Bus Pak PL	4	9	2
Bus Pak Fidelity Guarantee	0	0	0
Bus Pak Mach B'down	2	0	1
Bus Pak Electronics	0	0	1
Bus Pak PA	0	1	0
CONTRACTORS RISK	0	0	0
FARM	1	1	0
HOME & CONTENTS	11	14	16
INCOME PROTECTION	0	5	1
ISR	1	2	2
LIFE	0	0	0
LIFESTOCK	2	0	2
MARINE	0	4	3
MOBILE PHONE	0	0	0
MOTOR VEHICLE TOTAL	34	34	19
MOTOR VEHICLE Private	26	29	12
MOTOR VEHICLE Commercial	8	5	7
PERSONAL ACCIDENT/SICKNESS	4	3	6
PLEASURECRAFT	1	0	1
PROFESSIONAL INDEMNITY	2	1	8
PUBLIC LIABILITY	13	10	4
STRATA TITLE/LANDLORD	6	3	5
SUPERANNUATION	N/A	N/A	1
TRAVEL	0	0	0
WORKERS' COMPENSATION	0	1	1
OTHER	1	3	5

- Business pak policies and motor vehicle insurance policies (20% each) and home and contents policies (17%) accounted for most of the complaints.
- The majority of complaints involving motor vehicle policies were in regard to private motor vehicles (13%). Complaints included arguments about the difference between market and agreed value, excesses, non-disclosure of past convictions and

nominated drivers being under 25 years old.

- 25% of complaints involving business pak policies revolved around issues related to the burglary section, mainly theft cover in the open air or access being gained by intruders without forcible or violent entry.
- Another large group of complaints involved professional indemnity (9%) and personal accident and sickness cover (6%)

3.2.5 NATURE OF COMPLAINTS

	2003	2004	2005
CANCELLATION/REFUND	31	24	22
Cancellation/refund	11	14	10
Cancellation/refund time issue	10	2	1
Cancellation/refund premium funding issue	5	7	8
Cancellation/refund commission issue	5	1	3
CLAIM	13	29	23
Claim	9	18	3
Claim settlement issue	0	10	14
Claim time issue	4	1	6
COVER	15	40	26
FEE	1	5	2
FRAUD	0	1	1
NEW BUSINESS	9	1	1
NON-DISCLOSURE	7	5	2
Non-disclosure	5	1	1
Non-disclosure convictions	2	4	1
PREMIUM FUNDING	1	0	2
PREMIUM	1	5	0
PROFESSIONAL CONDUCT	1	2	3
RENEWAL	23	3	6
Renewal matters	12	2	2
Renewal not received	9	1	4
Renewal not received in time	2	0	0
VALUE AGREED/MARKET	5	3	2
EXCESS	3	1	3
OTHER	0	5	0

- 28% of complaints arose where there was a misunderstanding

of cover, followed by cancellation/refund premium issues (24%).

- Cover issues arose mainly from misunderstandings of discussions between the consumer and the member. It is crucial that members confirm all conversations with their clients in writing to avoid such misunderstandings. If quotes are provided to a consumer, but the consumer only elects to take out the minimum cover, the member is obliged to highlight the danger of such premium shopping.
- Cancellations/refunds 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.
- 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 data covering 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 on its website (www.ibdltd.com.au) to provide examples of the type of complaints that are handled by the facility.

3.2.6 VALUE OF COMPLAINTS

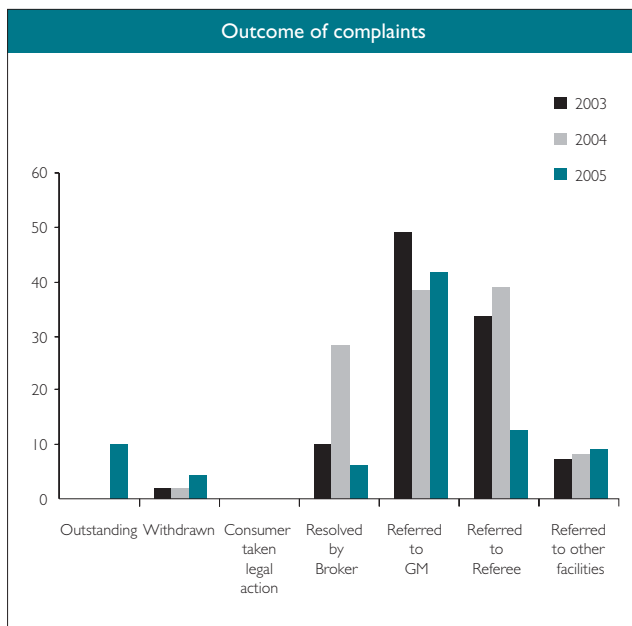
	2003	2004	2005
UNDER \$1000 TOTAL	36	30	13
Under \$100	2	4	2
\$101-\$500	16	6	5
\$501-\$1000	18	20	6
\$1001-\$5000 TOTAL	29	32	42
\$1001-\$2000	15	8	16
\$2001-\$3000	9	5	6
\$3001-\$4000	0	6	9
\$4001-\$5000	5	13	11
\$5001-\$10,000 TOTAL	14	19	8
\$5001-\$7500	4	8	3
\$7501-\$10,000	10	11	5
\$10,001-\$25,000 TOTAL	13	23	11
\$10,001-\$15,000	7	9	6
\$15,001-\$20,000	6	10	3
\$20,001-\$25,000	0	4	2
\$25,001-\$50,000 TOTAL	9	13	9
\$25,001-\$30,000	2	2	3
\$30,001-\$35,000	1	3	2
\$35,001-\$40,000	1	1	1
\$40,001-\$45,000	0	1	0
\$45,001-\$50,000	5	6	3
OVER \$50,000 TOTAL	0	0	3
\$50,001-\$100,000	0	0	0
Over \$100,000	0	0	3
No quantified claim involved	9	7	7

- 59% of complaints involved claim amounts under \$5000.
- 9% of complaints involved claim amounts between \$5000 and \$10,000.
- 12% of complaints involved claim amounts between \$10,000 and \$25,000.
- 10% of complaints involved claim amounts between \$25,000 and \$50,000.
- Only three cases were recorded as involving amounts in excess

of \$50,000, which were outside the scope of IBD. These were:

- A claim for \$250,000 involving a commercial vessel;
 - A claim for \$320,000 involving PI cover; and
 - A claim for more than \$500,000 involving PI cover.
- From the 19 complaints received in regards to business pak policies, 14 matters involved claim amounts up to \$5000. Of the remaining five, only one matter was rejected due to the claim limit; one was rejected due to the size of business involved (outside the small business definition); one was rejected as the actual complaint was outside IBD's scope; and two matters were referred to the Insurance Ombudsman Service.
 - Currently IBD allows a consumer to agree in writing to reduce the amount of their claim to fall within the limits of IBD and enable IBD to handle the complaint. If a member wishes IBD to handle a complaint outside the limits, the member needs to obtain written approval from its PI insurer.
 - Discussions have taken place with the brokers' professional indemnity insurers to increase the limit of IBD to \$100,000, including small business paks. As the Chairman has noted in his section of the Annual Report, the insurers have indicated they will support an increased limit to \$100,000.

3.3 OUTCOME OF WRITTEN COMPLAINTS



- It appears that most complaints are being resolved either directly by the member (7%) or with the involvement of the General Manager (49%). If possible, IBD encourages members to discuss complaints initially with the consumer, even after a written complaint has been lodged, to assess if the matter can be successfully settled.
- IBD also provides consumers with information on other complaints facilities and relevant bodies. Ten complaints were referred to other facilities (eight to the Insurance Ombudsman Limited, one to ASIC and one to the SCT).
- 14 matters were determined by the Referee.
- 11 complaints were not finalised as at 31 December 2005, of which nine are with the Referee awaiting determination.

3.3.1 CONCILIATED BY GENERAL MANAGER

	2003	2004	2005
RESOLVED BY GMTOTAL	46	31	36
Resolved by GM	7	7	3
Conciliated by GM in favor of member	14	12	20
Conciliated by GM as compromise	2	4	1
Conciliated by GM in favor of consumer	23	8	12
REJECTED BY GMTOTAL	8	12	10
Rejected by GM (other reasons) TOR 3.3d-h	0	3	0
Rejected by GM as outside class of insurance TOR 3.3a	3	3	4
Rejected by GM as outside small business definition TOR 3.3a	0	0	2
Rejected by GM as outside claim limit TOR 3.3a	3	5	3
Rejected by GM due to legal action being taken by consumer-TOR 3.3b	2	1	1
Rejected by GM as based on verbal accusation only TOR 3.3c	0	0	0

- During the reporting period 20 matters were conciliated in favour of the member and 12 matters in favour of the consumer.
- In matters being "resolved by GM", the General Manager provided assistance to both parties to clarify the situation to the satisfaction of both parties. In most cases there was no claim or monetary loss involved.

- In matters being “resolved as compromise” both parties agreed to bear part of the claim.
- Where a matter was being conciliated in favour of the member, the consumer was made aware that it was conciliation advice only and that the matter could be referred to the Referee if requested for final determination.
- A survey of 38 complainants, including all complaints which were conciliated in favour of the member, showed that all complainants understood and were satisfied with the process of IBD, even when they were dissatisfied with the outcome of the investigations.
- In some cases, the consumers disagreed with the fact that there is no right of appeal against the decision made by the Referee.

- Two matters which initially had been referred to the Referee were subsequently withdrawn by the complainant and one matter was resolved through compromise.
- Details of all determinations are published on IBD website (www.ibdltd.com.au).

3.4 EFFECTIVENESS

IBD introduced a survey system for telephone and written complaints to assess the effectiveness of its advice and to ensure that the consumer is fully aware of the due process.

TELEPHONE COMPLAINTS

Consumers are called about four weeks after they made telephone contact with IBD and no written complaint has subsequently been received to confirm if the issue has been resolved by the member or, if necessary, to encourage the consumer to lodge a written complaint.

The results were as follows:

3.3.2 DETERMINED BY REFEREE

	2003	2004	2005
RESOLVED BY REFEREE TOTAL	33	42	14
Resolved by Referee	0	2	0
Referred to insurer	0	4	0
Referred to courts	1	4	0
Referred to Insurance Ombudsman	n/a	1	0
Determined in favour of member	20	18	7
Determined as compromise	1	1	1
Determined against member*	2	1	1
Determined in favour of Consumer	9	11	5
REJECTED BY REFEREE TOTAL	2	1	0
Rejected by Referee (other reasons)	2	0	0
Rejected on merits	0	1	0
Rejected by Referee as verbal accusation only	0	0	0

* No monetary order made, but the member has been ordered to submit an audit report of its administrative capabilities and compliance with IBD requirements.

- In total 33 matters were referred to the Referee, five less than in 2004.
- 14 have been issued with a determination as at 31 December 2005.
- Seven matters were determined in favour of the member and five in favour of the consumer.

Resolved by broker	57%
TOTAL resolved by General Manager (GM)	0%
Resolved by GM	0%
Resolved by GM for member	0%
Resolved by GM compromise	0%
Resolved by GM for consumer	0%
TOTAL rejected by GM	1%
Rejected by GM (other) TOR 3.3d-h	0%
Rejected by GM (class of insurance) TOR 3.3a	0%
Rejected by GM (small business definition) TOR 3.3a	0%
Rejected by GM (claim limit) TOR 3.3a	1%
Rejected by GM (legal action by consumer) TOR 3.3b	0%
Rejected by GM (verbal accusation) TOR 3.3c	0%
TOTAL referred	2%
Referred to Insurance Ombudsman	2%
Referred to ASIC	1%
Withdrawn by complainant	21%
Consumer taken legal action	6%

Based on the outcome of that survey, it appears that over half of the complaints could be resolved by the member after the initial complaint was brought to the attention of IBD who in turn made the member aware of the problem.

21% of complainants withdrew their complaint after having received clarification advice about the situation from the IBD. Only 6% of complainants decided to take alternative legal action. IBD is unaware if any of these legal actions have been successful.

WRITTEN COMPLAINTS

Consumers are called about four weeks after IBD provides conciliation advice following a written complaint to confirm if the consumer understands the advice, believes it is fair and reasonable and is fully aware of the process to pursue the matter and have the matter referred to the Referee.

Some 38 complainants were surveyed in this manner – 100% of written complaints received where the complainant received conciliation advice which was not in his/her favour. The results were as follows:

Did consumer understand advice from GM?	
yes	95%
no	3%
in part	3%
Did consumer believe advice from GM was fair?	
yes	84%
no	8%
in part	8%
Did consumer understand IBD process?	
yes	100%
no	0%

Based on the outcome of that survey, it appears that conciliation advice provided by IBD was in most cases clear and understandable by the complainant, even though in some cases the complainant disagreed with that advice.

In all cases, the complainants understood the process followed, and the fact that the complaint could be referred to the Referee for final determination.

3.5 SYSTEMIC ISSUES

IBD's core function is dispute resolution. In addition to this, ASIC policy statement 139 paragraphs 139.62, 139.69, 139.70, 139.75 and 139.77 require IBD as an approved external complaints resolution scheme to establish internal procedures to identify, record and report systemic issues, alleged serious misconduct and serious misconduct.

IBD defined a "systemic issue" as an issue which has been raised in a dispute or several disputes with IBD that is deemed to affect, or to possibly affect, a class of customer in addition to those who have complained to IBD. Several disputes of the same type may indicate a systemic problem, but issues may also be identified out of the consideration of one single dispute where it is clear that the effect of the problem will extend beyond the parties to the dispute.

"Serious misconduct" is defined as conduct which may be fraudulent, grossly negligent or involve wilful breaches of relevant laws.

IBD decided that these issues would be better handled as a systemic complaint in addition to the normal complaint procedures and guidelines.

IBD will make its decision to assign an issue as "systemic" on a discretionary basis having regards to:

- How many complaints IBD has received about the issue (benchmark of three per year or two per month);
- How many consumers the issue is likely to affect;
- Whether the issue requires a long-term solution; and
- Whether the issue requires in-depth knowledge, expertise, or investigation on the part of IBD.

A "potentially systemic issue" is one that may fit the criteria of a systemic issue and is being considered for designation as a systemic issue or being monitored before being assigned this status.

From time to time, the General Manager may contact members to source information about potentially systemic issues.

When a potentially systemic issue is identified, IBD may contact the member to inform it that IBD is considering the matter and to seek information. When IBD has had the opportunity to consider the facts of a potentially systemic issue, IBD decides whether the issue will be designated as systemic using the criteria above.

After the General Manager confirms that the matter is a systemic issue, IBD will counsel the member in an effort to have the matter rectified. A matter will be considered where any and all identifiable consumer detriment is remedied.

It is recognised that not all systemic issues will involve a particular scheme member or members, and that in these cases a counselling process will not be necessary or appropriate. In these cases a general report will be prepared for the Board, in relation to the systemic issue that has been identified, and a copy will be sent to ASIC.

The General Manager is required to act expeditiously in relation to the counselling process where an urgent resolution is required, for example where alleged serious misconduct is ongoing, or a systemic issue of a serious nature is ongoing.

If the issue is rectified, and in the view of the General Manager it is unlikely to recur, the matter will be included in a general report to the Board. Once the Board has reviewed the report, it will be included in the quarterly report to ASIC. Such a report will not identify the member, but will include the numbers of each type of systemic issue that has been found, investigated and rectified.

If the member does not rectify the systemic issue, the General Manager will refer it to the Board, which will consider if the matter is appropriate to be referred to ASIC.

During the reporting period, IBD logged 14 matters as potential systemic issues. All of them were related to insufficient IDR systems, mainly where the complainant indicated on the complaint form to not have received information about the broker's internal dispute resolution system or the services provided by IBD.

As at 31 December 2005 seven matters had been withdrawn as having been resolved by the member, and seven were still being investigated.

IBD has raised its concerns with members regarding adequate IDR procedures, in particular providing clients with written information and advice concerning the broker's own IDR procedures and the

services provided by IBD once a possible complaint/problem has been noted.

IBD has had preliminary discussions with the NIBA College of Insurance & Risk Professionals to establish some training modules addressing these issues. IBD is also placing a greater emphasis on examining complaints that display this issue.

It is still of concern that IBD statistics for 2005 show complainants received information about IBD from the member in only 48% of the written complaints received by IBD. However, IBD would also like to highlight that this is a significant improvement from 27% in 2004.

This statistic is based on the information provided by the complainant on the complaint form only (ticking a box asking where they received information about IBD). In some cases IBD establishes during the complaint process that the broker in fact did provide the complainant with adequate advice, but the complainant chose to ignore that advice.

The broker's basic obligation is to advise clients of the presence of IBD by including an appropriate phrase on renewal notices or invoices. In addition, a broker should display the Certificate of Compliance in the reception area.

However, in case of a potential complaint or problem the broker must make an additional effort to ensure that the client is aware of the broker's own IDR procedures and the services provided by IBD. This information should be given in writing to the client, including a description of the internal procedures for complaint-handling and the usual time within which a dispute will be determined (usually 20 days). This information should confirm that disputes are handled by a staff member who has the necessary authority to deal with disputes.

If the member is in doubt that the client has a potential complaint, it is preferable and recommended practice for the member to provide information about IDR and IBD. This can be done in a positive manner to enhance the trust of the client in the broker's expertise and professionalism. It must be done in writing.

All staff and authorised representatives who regularly deal with clients should be made aware of the broker's IDR and the role of IBD. Employers are required to provide and evidence some training to ensure staff complies with all relevant legislation and are able to provide service of an appropriately high standard.

4. PARTICIPATING MEMBERS

	ACT	NSW	NT	QLD	SA	TAS	VIC	WA	TOTAL
IBD MEMBERS TOTAL 2005	8	285	3	137	54	10	219	90	806
In comparison to 2000	9	360	5	181	72	15	254	102	998
IBD members 2005 in % of total in state	1%	34%	1%	17%	7%	1%	27%	11%	
Accountant		1							1
Foreign Insurance Agent								1	1
Financial Planner		5					5	2	12
General Insurance Broker	5	219	2	112	45	10	187	74	654
General & Life Insurance Broker	3	41	1	19	8		21	7	100
Life Insurance Broker		3			1		1	2	7
Underwriting Agency		15		4			1	4	24
Warranty Company		1		2			4		7

- There were 806 members of IBD in 2005 – a 3% increase from 783 members in 2004.
- 94% of members are general and/or life insurance brokers and the remainder deal in general or life insurance business only as an incidental part of their main business operations.
- Warranty companies form a new group of members.
- 20% of IBD members deal with agents of unauthorised foreign insurers.
- Basic renewal fees for 2006 have not been increased, but four new membership categories relating to the size of businesses have been added to the fee structure. There was also a \$10 increase in fees for authorised representatives.

5. THANK YOU IBD

The following are notes received from complainants and members regarding services provided by IBD.

COMPLAINANTS

"Thank you for your assistance with my claim. I am happy to let you know that the matter has been resolved to my satisfaction without the need to take it any further. Once again, thank you for your help, I really appreciate it."

MF, 20 June 2005

"I have received the outstanding money from both the broker and the insurer. Obviously, your phone call carried a bit of weight. Thank you very much for your assistance. It is very much appreciated. Obviously, I will not be proceeding with any formal complaint."

RR, 7 July 2005

"I wish to thank you all for your effort in finalising the complaint vs broker. I am truly grateful."

PD, 28 October 2005

"I would like to thank you and the broker for the comprehensive response that I received. I am happy that the outcome is as a result of a thorough investigation into the facts and clearly no further action is required."

JL, 25 November 2005

"Thank you for your prompt message in response to my complaint. We have been advised by telephone today that the broker will be writing to us with the appropriate adjustment to our premium as they had previously indicated."

RN, 28 November 2005

"I am advised by Mr X that he personally attended the offices of the agent to explain the 03/04 changes in the invoicing method. I am now satisfied that the net premium of the insurer before commission, plus the increased broker's fees, were to our advantage. There was a lack of communication between our agent and the partners of the company. I wish now to withdraw my verbal complaint, and take this opportunity to thank you for your prompt attention."

LW, 29 November 2005

MEMBERS

"Thank you – I will be recommending your company to other [financial] planners who specialise in the insurance field. [General Manager] Daniela [Kirchlinde] has been very professional and helpful."

JE, 15 July 2005

"Have just received your fax enclosing a copy of the release and will forward a cheque to the complainant promptly. Many thanks for your collective efforts in bringing this to a conclusion."

PK, 18 July 2005

"We are very happy with the work that the IBD is doing in the 'pre-complaint' process. This work has demonstrably resulted in fewer recorded complaints against members because potential complaints are being detected and resolved at an early stage, without an adversarial process. This is clearly to the benefit of members and more importantly members' many clients."

AG, 17 August 2005

"Just received the certificate of compliance on the fax. Thank you so much for putting me to the top of the pile. You have been so helpful, and have made this so easy for us."

JD, 17 November 2005

"Thank you for the professional and expedient matter in which you handled this complaint. This is appreciated."

AG, 23 November 2005



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