

British Insurance Brokers' Association – Written evidence (SCG0011)

About BIBA

The British Insurance Brokers' Association (BIBA) is the UK's leading general insurance intermediary organisation representing the interests of insurance brokers, intermediaries and their customers.

BIBA membership includes more than 1,800 regulated firms, employing more than 100,000 staff. General insurance brokers contribute 1% of GDP to the UK economy; they arrange 77% of all general insurance with a premium totalling £105.5bn and 94% of all commercial insurance business.

Insurance brokers put their customers' interests first, providing advice, access to suitable insurance protection and risk management.

Executive Summary

BIBA welcomed the introduction of the Financial Conduct Authority's (FCA's) secondary objective, having called for this during the progress of the Financial Services and Markets Bill (now Act). We very much welcome the establishment of the FSRC to provide parliamentary scrutiny of the financial services (FS) regulators.

It is important to note that over the last 18 months we have had a lot more direct engagement with the FCA and in turn they have stepped up their engagement with BIBA and our members. We see this as a positive sign of the regulator starting to take their secondary objective seriously.

We read the FCA's initial report on the secondary objective with interest. The report did contain areas of improvement but there are areas where their reporting could provide more substantive detail.

To remedy this, we recommend that:

- Further metrics are introduced around international comparisons;
- Authorisation timelines should be more comparative with international regimes;
- Reduce the scope of the Consumer Duty to remove corporates and Medium sized businesses;
- Remove unnecessary ICOB rules from the FCA Handbook (we can offer further specifics if required)
- Reform the cumbersome and resource heavy product value/fair value assessment framework should be reformed; and
- Optimise reporting requirements to account for size and scale of firms; and

- Bolster accountability mechanisms to encourage a more forward-looking approach.

Ultimately, we recognise we are at the very beginning of this journey with the regulator, but we have an opportunity for a proportionate regulatory framework which regulates for growth.

Introduction of the Secondary duty

As stated, we welcome the introduction of the secondary objective and think that properly implemented, it is key to retaining the leading position of the UK's FS sector. We campaigned throughout the parliamentary process of FSMA 2023 for more parliamentary scrutiny of the regulators' implementation of the secondary objective. We were therefore pleased to see the creation of the Financial Services Regulation Committee and its focus on this area of inquiry.

Over the last 18 months we have had good engagement with the FCA. They met with our board and members to discuss key themes including the Consumer Duty and most recently joined us for our member-focused Tour of the Regions, in 11 of the UK's largest towns and cities. This is certainly the most proactive they have been in engaging with our market, and this has been warmly welcomed by us and our members.

Turning to areas that could be further improved, including where there have been some unintended consequences, particularly on specialist brokers for instance, we have seen interventions that are out of alignment with the principles of the growth and competitiveness objective.

The regulator is not just responsible for regulation but needs to recognise that it is also a promoter of the sector both on the national and international stage. To truly see increased growth and competition (which leads to better consumer outcomes) the regulator needs to better embrace this responsibility and the mentality of regulating for growth. There have been numerous statements from the regulator which speak very negatively about the sector, when in fact the vast majority of regulated firms are fully compliant.

The regulators could do more to recognise that regulations can impact different sized firms very differently. For instance, whilst the burden of regulation to large organisations is costly and time consuming, they usually have the resource and budget to employ in-house compliance staff or contract external compliance expertise. However smaller organisations cannot always do the same and therefore the burden disproportionately falls onto the shoulders of brokers themselves, reducing the time and capacity to serve customers and therefore

impacting their ability to also generate income to cover their costs and grow.

This can also be seen with their expectations when it comes to reporting. Smaller organisations are increasingly reliant on off-the-shelf third party software . However, the FCA requests for ever increasingly segmented data, means small brokers are hamstrung by what these software house's systems can provide. Manually collecting data is not only time consuming, it can lead to errors and is a hidden cost to the business. .

We urge the FCA to give greater consideration to the impact on smaller firms and encourage the regulator to improve its outreach to that community to receive their feedback.

Common issues that members have shared with us included:

- FCA reporting systems not working as smoothly as they should;
- The frequency of reporting;
- Reports that could be amalgamated or simplified;
- Supporting notes and guidance could be clarified by the FCA.

We were pleased to see the FCA SICGO report mention a pilot framework for decommissioning regulatory data collections that are no longer required, as well as the progressive review and retirement of redundant returns. BIBA believe this is a necessary intervention and should be brought forward at the earliest opportunity. One example is the financial resilience reports that were brought in during the pandemic, which are arguably redundant in a post-Covid era.

With the introduction of the Consumer Duty, it's clear that there are elements of the existing handbook that could be updated, amended or removed.

BIBA's response to the FCA's own call for input on the rulebook, listed such recommendations for the ICOBS rulebook that we believe could be removed or reviewed in a way which would not diminish consumer protection or regulatory standards, but could support the creation of a simpler, more relevant rulebook that will aid growth and competition. In total we found 24 examples of rules that could either be reviewed or removed entirely. We would be happy to share our input with the Committee if this would be helpful.

It would also be remiss to not mention the current product value/ fair value assessment regime which is not working. We sit on the board of the World Federation of Insurance Intermediaries and our counterparts

confidently report that no country in the world has such an onerous process which is resource heavy and is proven to be so burdensome.

To emphasise this point, if we took a hypothetical firm with agencies with 50 insurers and each providing the insurance broker with 20 products, you would be expected to return 1,000 fair value assessments. This would require the broker to answer thousands of questions and spend hours producing these returns. As the products are 'manufactured' by insurers, the process involves unnecessary duplication and exemplifies the heavy "unintended" burden current regulation places on our members. Despite the positive intentions that the regulator began with, clearly the execution has driven the burden too far, and therefore reform is needed.

Ongoing implementation of the secondary duty

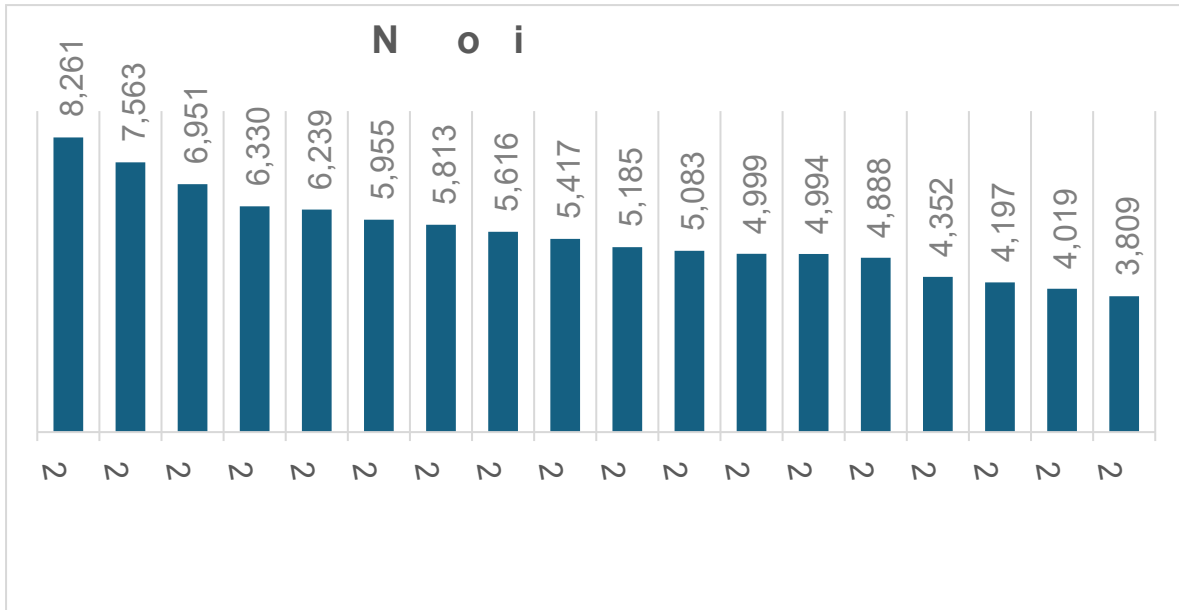
We welcomed the publication of the FCA's first annual report on the secondary objective earlier this year. There were positive signs that there were some small improvements to the number of consumers who have confidence in the UK's financial system.

There were also areas in the report that may mislead. The statistic about 98% of authorisation cases being assessed within statutory deadlines, for example, suggest a quick and seamless authorisation process, but the experience for some firms is that the FCA is falling short.

The regulator has a "stop clock" mechanism whereby the timeframe for an application is paused if the FCA raises a question with the applicant firm. It is unclear how these pauses feature in the FCA's reporting. The application process means an organisation cannot operate and generate revenue, so any start-up investment money is being consumed before a single customer is served. In comparison if you look at the Central Bank of Ireland, they have service standards that suggest that they will approve an application for a new intermediary within 113 working days (just under 4 months) or the Netherland's authorisation process has to authorise applications within 13 weeks.

We need a competitive authorisation process that both ensures the very best consumer protection from day one and competes with international regimes to encourage businesses to open, invest and grow here in the UK, which in turn ensures our market is competitive and offers better consumer choice. The current process does not achieve this.

The impact of a burdensome regulatory regime can be illustrated in the steep decline of general insurance brokers operating in the UK. As the graphic below shows, the number of authorised firms has halved in the past 18 years – this speaks to a growing lack of competitiveness and from a customer viewpoint reduced choice.



Source: FCA data

There is an opportunity for further metrics to be reported on by the regulators, for example, a proper international comparison to understand how we fair against other markets.

Accountability is a fundamental priority in the regulatory framework post-FSMA. We believe the current metrics are generally *ex poste* rather than *ex ante* in nature, i.e. they show what the regulators have done over the past year, rather than shaping what they do before they do it. With metrics like the 'Equivalent Annual Net Direct Cost to Business' (RI-M01), which totals the CBAs for all policy statements in a year, this could be made more effective by bringing in new accountability mechanisms earlier in the process. For example, the regulators should have to explain to the Financial Services Regulation Committee why they are proceeding with a policy if it hits above a certain threshold of cost in the CBA. This would have a greater impact on action than merely reporting that policies have cost £73.8m at the end of 2023/24. We are less likely to see unintended outcomes from regulatory policy if the regulator must account for the risks it takes with these types of outcomes before implementing widespread changes.

Conclusion

As set out in this response we welcome the new secondary objective, along with the scrutiny and engagement this has provided. We appreciate the work the FCA has undertaken in partnership with BIBA and our members recently to engage with the various ways they can embrace this new objective and support a growing, competitive marketplace for customers, in a proportional way.

We are of course at the beginning of this journey but there is clear evidence that change is needed, and that the regulator can go further and faster to properly embrace the expectations the secondary objective place up on them.

BIBA believes there is a clear roadmap of reform that could deliver this change – which includes:

- Introduce further metrics for scrutiny, especially around international comparisons;
- Authorisation (and changes in permissions) timelines should be reduced – a more ambitious timeline should be set, and we should remove the “stop the clock” powers to be more competitive with international regimes;
- Reform the product value/fair value assessment regime;
- For the FCA to be ambitious in response to DP24/1 ‘Reducing the Scope of the Consumer Duty’, by reducing the requirements to the FSCS limit of £1M Turnover – removing a greater number of commercial businesses scope of this consumer-targeted principle.
- Remove unnecessary ICOB rules from the FCA Handbook (we can offer further specifics if required)
- Optimise reporting expectations based on size and scale of businesses (and therefore their capacity); and
- Bolster accountability mechanisms to ensure the regulator accounts for possible unintended outcomes before implementing widespread changes (e.g. the regulator should answer to the FSRC as to why it wishes to implement a change above a certain CBA cost threshold before changes are made).

We would value the opportunity to come before the Committee and discuss our submission in more detail.

26 November 2024