FSCS Parliamentary Briefing Paper

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

Financial Services Compensation Scheme (FSCS)

BIBA fully supports the concept of compensation – we believe it is an important tool in both consumer protection and increasing consumer confidence in financial services. Our concerns are how the funding of the current FSCS model works.

The current FSCS funding model

The current funding model splits the regulated community into five broad 'classes', of which insurance is one class. The insurance 'class' is split into two 'sub-classes', the insurers in one and the intermediaries into the other.

The insurance intermediary sub-class is the largest sub-class by number of firms it contains and the most diverse sub-class by type of firm it contains. There are approximately 14,000 firms in this sub-class, of which only around 3,500 are 'insurance brokers' i.e. firms for whom insurance broking is their 'core' business. The other firms in the sub-class are either firms with multiple FSA permissions e.g. banks, IFAs and mortgage brokers, or firms with a single permission whose core activity is not insurance e.g. motor dealers, caravan parks, doctors, dentists, vets and credit brokers.

The problem and the increasing levies

The problem with the current model is this pooling together of the 14,000 intermediaries with permissions to sell insurance. There has been widespread mis-selling of payment protection insurance (PPI), a product sold primarily by lenders and credit brokers, but by very few 'insurance brokers'. There is an increasing number of credit brokers who are unable to fund the compensation required following their mis-selling of PPI and folding, leaving the resulting compensation to be picked up by the other intermediary members of the FSCS intermediary sub class.

This failure of credit brokers has led to a growth stifling 50-fold increase in the FSCS budget for compensation from the insurance intermediary sub-class over the last three years. The impact on insurance brokers is devastating – a firm with a £20m commission income paid a £3,000 levy in 2008, £16,000 in 2009, £125,000 in 2010 and in 2011 paid £150,000. Firms of all sizes have been exposed to this degree of increasing levy.

BIBA

The solution

BIBA is calling for the FSA to urgently progress its consultation on the fundamental review of the FSCS, to ensure that new rules are in place as soon as possible. As part of the fundamental review, BIBA demands that the FSA:

1. Separate the 3,500 full time 'insurance brokers' from the other 'secondary sellers' currently in the insurance intermediary sub-class. Creating two substantial pots with enough eligible income in each
2. Remove the current system of 'cross-subsidies' from the funding model. Nowhere else in Europe are insurance brokers exposed to the possibility of funding compensation in the banking sector.

We are looking for a workable solution and have appointed consultants and lawyers to identify this and will present our findings to Government.

To Consult As Soon As Practical

There are currently three EU directives, but because of the huge increase in cost for our sector we are urging government to consult on the FSCS funding model as soon as the banking directive is clear.

Parliamentary activity

Jonathan Evans MP, Chair of the All Party Insurance and Financial Services Group recently presented a petition to the House of Commons of nearly 7,000 signatures from insurance brokers across the UK calling on the Treasury to urgently press for change with the FSA.

About Insurance Brokers

- Brokers contribute **1%** of GDP to the UK economy, the same as the agricultural sector
- **80%** of all commercial insurance are handled by insurance brokers
- **56%**of all insurance products are sold via insurance brokers
- BIBA members employ more than **60,000** staff in the UK
- **Support:** Brokers are the agent of the client and can provide clients with a complete risk management and insurance service, which includes assistance for those making claims.
- **Representation during claims:** There is evidence that providers make more favourable settlements with policy holders who have employed an intermediary e.g. 91% of brokers have secured an increased payment for a claim following the initial offer.
- **Informed advice:** Brokers can provide clients with clear advice and guidance in selecting the most appropriate policy from a variety of providers. This markedly contrasts with the 'one size fits all' approach of direct insurance operators.
- **Specialist insurance products:** In addition to providing commercial and corporate insurance protection, BIBA members are insurance specialists and provide a range of non-standard insurance cover, for example, young drivers, non-standard properties e.g. flood zone or subsidence, insurance for those with particular health issues, elderly travellers, unusual or high risk policies
- **Professional expertise:** Brokers are trained insurance professionals, often with many years experience of helping clients. They are regulated by the Financial Services Authority and to practise have to be declared 'fit for purpose' and demonstrate their competence.
- **Independent advice:** Brokers have a duty to manage conflict of interest and recommend suitable policies.
- **A personal service:** Brokers provide a convenient service and clients can choose whether to conduct their business by telephone, online or in face to face meetings.

The Find a Broker service www.biba.org.uk and or 0870 950 1790 help over 400,000 people a year.

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