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Branko Bjelobaba FCII
Regulation & Compliance Consultant



Branko Ltd

FCA compliance consultants

- * BIBA Compliance Manual
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British Insurance Brokers' Association

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BIBA Compliance Manual

Insurance Broker
Fair Value Assessment Framework

Including application to multi-occupancy buildings insurance

NEW YORK, NY
CHICAGO, IL
BEIJING, CHINA

October 2023
biba.org.uk

The best insurance is a BIBA broker

Today

1. Conduct Rules
2. FCA priorities
3. Consumer Duty
4. Product Governance
5. Multi-occupancy

1. Conduct Rules



Conduct rules

Rule 1: You must act with integrity.

Rule 2: You must act with due skill, care and diligence.

Rule 3: You must be open and cooperative with the FCA, the PRA and other regulators.

Rule 4: You must pay due regard to the interests of customers and treat them fairly.

Rule 5: You must observe proper standards of market conduct.

Rule 6: You must act to deliver good outcomes for retail customers.



In addition...

- TC rules require staff to be trained
 - 15 hours IDD
 - 35 hours CII qualified
- Assessed as competent
- Annual reporting - formal written warnings, suspension, dismissal, reduction or recovery of remuneration
- Regulatory referencing



Who is responsible?

- A firm's governing body has ultimate responsibility and must ensure it complies
- NEDs should challenge, enquire and always ask how do we make our money
- Firms must have a Senior Manager responsible for compliance with the regulatory system
- It should be clear which SM has responsibility for these areas (check your SoR)
- But you all have an input...



2. FCA priorities



London Market/Wholesale



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20 September 2023

Dear CEO

Insurance Market Priorities 2023-2025

We want to update you on the FCA's priorities for the Insurance market 2023-2025, the specific risks of harm we are most concerned about and what we want firms to do about them. We are also updating you on what we are focusing on in the wholesale insurance portfolios specifically. These are 'Lloyd's and London Market Insurance Intermediaries (and Managing General Agents)' and 'Lloyd's & London Market Insurers and Others'.

The insurance market is essential to the UK economy, providing a vital service for millions of consumers and businesses. The market has 3 key sectors: personal and commercial lines insurance, wholesale insurance and life insurance. The wide variety of products and services within it includes personal and commercial lines products such as home and motor insurance that provide financial protection, wholesale products and services that price and underwrite risks from around the world, and life insurance products that invest and provide income to

Issues...

1. Governance and Culture
2. Operational Resilience and the reliance on third parties
3. Embedding Consumer Duty
4. Oversight of ARs
5. Competitiveness of the London Market
6. Non-financial misconduct
7. Cyber insurance
8. Financial crime
9. Prudential risk to debt servicing



3. Consumer Duty



FCA are asking

1. Are you satisfied your products and services are well designed and perform as expected?
2. Do they have features that could harm vulnerable customers? How do you communicate with them and are these effective? Is your customer support meeting their needs?
3. What action have you taken as a result of your fair value assessments?
4. What data, MI and other intelligence are you using?
5. How are you testing the effectiveness of your communications? How are you acting on these results?
6. How good is your post-sale support?
7. Do individuals understand their role and responsibility?
8. Have you identified the key risks to your ability to deliver good outcomes and sorted them?



Consumer Duty implementation: good practice and areas for improvement

Good and poor practice | Published: 20/02/2024 | Last updated: 22/02/2024

- [1. Next steps](#)
- [2. Culture, governance and monitoring](#)
- [3. Consumers in vulnerable circumstances](#)
- [4. Products and services](#)
- [5. Price and value](#)
- [6. Consumer understanding](#)
- [7. Consumer support](#)

Copy available – please message me if wanted

Sheldon Mills 20th Feb 2024

- You do need to get it all done by July but if you are struggling with the order, ask: Which products or services are likely to cause the greatest harm? Where is the most work needed? This, rather than if a product is open or closed, should be the key factor – particularly once the July deadline has passed.
- This is where your board report will be key: it will be used to assess and evidence how firms have provided good outcomes for consumers under the Duty - the first one will be due by the end of July



4. Product Governance



FCA's beef?

- Rules came in on 1 October 2021
- Products have to be assessed as providing fair value and if this is not done, **they can no longer be sold**
- Very few examples of products being withdrawn
- Commission – too generous and not enough work being done to ensure commensurate
- Generic online statements are not enough and you can't assume all is OK without asking what brokers do **themselves** to impact value to incl the whole chain



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23 February 2024

Dear Sir/Madam,

Re: Product Governance Thematic Review – General Insurance and Pure Protection

Ensuring financial products and services offer consumers fair value has been a key focus for the FCA, for a number of years. For General Insurance and Pure Protection, we implemented fair value rules ("PROD 4") in 2021, and these were further strengthened and introduced across all products we regulate as part of the Consumer Duty. As consumers across the country are affected by the current cost of living crisis, the fairness of the price of financial products and services and the value they offer is more important than ever before.

In March 2023, we began a thematic review assessing insurance manufacturers' and distributors' product oversight and governance arrangements and whether firms are meeting their obligations and our expectations. The background to our review and details of the work we have undertaken are set out in the annex below. We are sharing our key observations and concerns, so that manufacturers can take swift action, where necessary. These are the key observations from the review of the

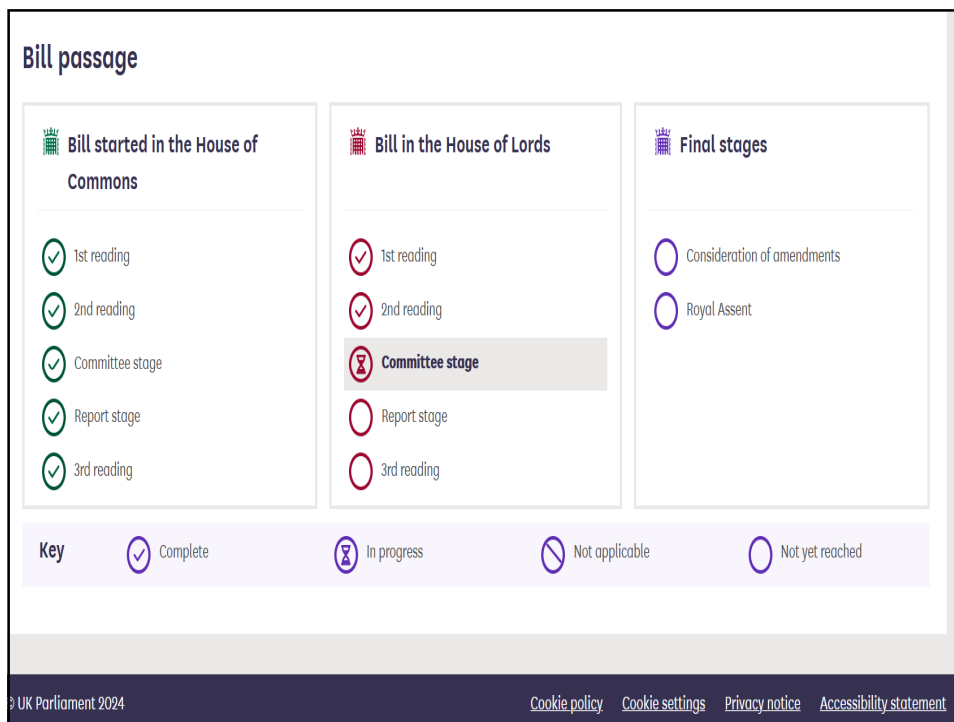
Fair value assessments

- Did not always consider the expected total price to be paid and the elements that make up the total price
- Most considered the cost of underwriting the product but did not consider the cost of operating it
- Most insurers had not adequately assessed the distribution arrangements including in relation to the value of the product
- Firms did not evidence how the remuneration of distributors (i.e. any commission, fee, charges, or other payment etc) was consistent with providing fair value including having considered the total price compared to the type and quality of the services provided by the distributor any other person in the distribution arrangements



5. Multi-occupancy





"There is a **huge insurance scandal** coming down the track with what has been going on with managing agents and leaseholders. It is **absolutely outrageous**; they are just ripping people off."

"That is why the issue of control of insurance costs is fast becoming a **critical battlefield** in excessive charges for leaseholders, who are forced to pay towards a group insurance policy but have no control to, as it were, "go compare" which is the best insurance policy to choose."

"...spent £1.6 million in secret insurance commissions...this is potentially **corruption**...excessive costs have been paid that run into thousands of millions across the UK."



15. Buildings insurance premiums have soared hundreds of percent in recent years causing untold harm to ordinary people. What will be the measure of success for the FCA to deem their intervention, alongside that of the ABI (Association of British Insurers) and the Government, a success?

16. Why did you let regulated insurers get away with causing harm and ripping off innocent leaseholders for years?

17. Your Sep 2022 Report on insurance for multi-occupancy buildings repeatedly complained that firms were not able to provide requested information. Has this situation been resolved, and do you now have access to full data from all firms in the sector?

18. When can we expect an update on the Sep 2022 report (beyond the Apr 2023 report on broker commissions) based on complete data?

19. Will Mr Rathi and Mr Mills meet the End Our Cladding Scandal campaign team to discuss the FCA's work on leasehold building insurance premiums?

20. What action are you taking to push the ABI and your regulated members to launch the long-promised Reinsurance scheme that you recommended? The timescales in your report have been passed and people are still being ripped off left, right and centre. **The FCA's reforms may provide transparency but will only tell us how much we're being ripped off and will still give us no choice as the actual consumer paying for insurance. What more needs to happen to ensure the harm will be resolved fully?**

21. Insurance for Leasehold flats: where conduct in the past has been to maximise unjustified revenue from third parties before rules contained in FCA Policy Statement PS23/14 comes into force, will the FCA advocate compensation by those parties to leaseholders?

22. What is the FCA's Stance on Insurance Companies mandating remediation as a requirement to provide cover for buildings with Cladding primarily B1 rated cladding. In our Instance Encapsulated EPS, legally available and fit for purpose on buildings below 11m.

23. Where are the FCA and Insurance companies at with the formation of an insurance fund for buildings affected by cladding?

24. Could the FCA please clarify which are the enforcement and redress procedures open to leaseholders, and which is the authority in charge of enforcing new PS23/14 rules, in case of non-compliance with such rules by any FCA authorised and regulated firm?



What's been said?

- Needs of LH not considered in product design
- Premiums up 56% and broker pay up 46% (13 brokers place 85% of all property owners' business) and costs had not increased at the same rate
- Brokers placing on basis of remuneration only
- Brokers were often unable to articulate what insurance related services or benefits of value were provided by the parties receiving shared commissions (£80m)
- Inadequate evidence to show brokers deliver fair value (due to deficiencies in their product value assessment work, shortcomings in their recording and analysis of their own costs) and insufficient scrutiny of the commissions they pay to others





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Rt Hon Michael Gove MP
Secretary of State for Levelling Up, Housing and Communities
Minister for Intergovernmental Relations
4th Floor, Fry Building
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29 February 2024

Dear Secretary of State,

I write with an update on our work on multi-occupancy buildings insurance ('MOBI'), which has been a concern for leaseholders. Over the past year, we have made progress on the issues within our jurisdiction and worked with your Department and other stakeholders on those outside the remit set for us by Parliament.

Enhanced leaseholder rights and protections

We progressed our consultation on enhanced protections for leaseholders at speed. We considered the 101 responses, the majority of these from affected leaseholders, before

Is it working?

- FVAs and accompanying loss/expense ratios did not give material concerns re value
- More work needed on better MI
- Most insurers have reduced intermediary commissions
- Some have made less progress and could not evidence fair value
- Some brokers subject to S166s and attestations re fair value and product governance
- FCA supporting the bill and ready with secondary legislation to implement what is mandated



Thank you for listening

Questions please

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