VIEWPOINT

FCA fair value rules are an issue for London market brokers

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New requirements will further increase the regulatory pressures on London market brokers, some of which are unaware of the new regime or think it does not apply to them

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When the Financial Conduct Authority (FCA) published its fair value proposals in May, the market primarily focused on the impact they would have on personal lines, such as home or motor insurance. However, it has since become clear the new rules on governance will have a huge impact on commercial lines too.

London market brokers therefore need to be aware of how these new rules will affect them and how they can ensure they are compliant, while not being overly burdened by additional costs.

When the FCA published its new rules on the pricing of general insurance products, its aim was to promote fair value for customers and eliminate what it described as "harmful practices". These included things like "price walking", whereby insurers increase home and motor premiums for existing customers who automatically renew their policy.

Since then, the FCA has updated its rules, which came into force on October 1, focusing on systems and controls, product governance and related glossary changes, which will affect insurance brokers. The next deadline is January 1, 2022, when the FCA's pricing and auto-renewal remedies, premium finance disclosure rules and reporting requirements will take effect.

Although coverage of these pricing rules has focused mainly on home and motor insurance, a recent Chartered Insurance Institute webinar on FCA compliance sent a clear warning to brokers these rules will have an impact on commercial insurance too.

Key impacts

The new rules will affect brokers in two key ways. First, they require all insurance firms to offer a renewal price no higher than the equivalent new business price for that customer through the same sales channel. The message is clear: every part of the insurance distribution chain is affected – including London market brokers.

Second, broker intermediaries are required to review distribution arrangements, including remuneration, at least every 12 months to check fair value is still being provided for customers across the entirety of the insurance value chain.

Further, the FCA says brokers should not receive a level of remuneration that "does not bear a reasonable relationship to the firm's actual costs, contribution, level of involvement or the benefit added by them". Insurers also need to know about broker remuneration.

All brokers will need to adhere to these rules, with the FCA making it clear it will monitor the situation and take action against firms that fail to comply. This means all brokers will need to be able to track their remuneration and their costs per individual client and be in a position to report on this when asked.

How should London market brokers respond?

Worryingly, these new FCA rules add further regulatory burden on to brokers, some of which, according to the FCA, are unaware of them. This comes at a time when many brokers are already under pressure, with up to a quarter of their full-time equivalent staff being employed to deal with regulatory requirements.

Compliance

To comply, many brokers will urgently need to improve their monitoring, reporting and transparency, both in terms of the actions they take for their clients to deliver fair value and their remuneration, which they need to track internally and report on for insurers, customers and the FCA.

For some brokers, this will mean more time spent on broking in the market for existing clients, as well as the additional administration costs associated with reporting. For brokers that rely on manual data-processing and reporting, the costs of complying with these FCA rules will be even more burdensome, time-consuming and costly.

By moving from legacy systems to a next-generation, born-in-the-cloud broker platform, brokers not only benefit from automated processes and reduced rekeying, but also from technology that enables them to quickly, easily and cost-effectively comply with these FCA rules.

End-to-end broker platforms can now automatically record every policy and resulting action (mid-term adjustment, claim to be handled, client meeting and so on), which are logged against a client account. With in-built reporting tools, users can quantify profitability out of the box, providing ammunition to justify their remuneration by evidencing the time and effort spent on servicing clients' needs.

Not only can a next-generation broker platform help with FCA compliance, it also enables brokers to negotiate increased fees, where appropriate and justified.

Further, such platforms enable brokers to monitor distribution channels, such as delegated authorities, binders or facilities. Brokers can then audit these channels in real time, enabling them to assess the fairness of commissions or set fees for administration, further helping them to comply with the FCA regulations.

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