



### Financial Conduct Authority thematic review: commercial insurance intermediaries - conflicts of interest

In May 2014, the Financial Conduct Authority (FCA) published the findings from its thematic review of commercial insurance intermediaries, in relation to conflicts of interest and remuneration policies. The FCA looked specifically at how general insurance intermediaries conduct their business with small and medium-sized enterprises (SMEs), focussing particularly on how conflicts of interest are managed.

#### Headline points from the thematic review

##### **SMEs expect to receive advice from intermediaries and rely on that advice**

SME customers often have more complex insurance needs than retail customers, due to the range of possible risks to be covered. There may also be a lack of specialist knowledge amongst customers. As a result, the FCA found that SMEs expect to receive and rely on advice from intermediaries.

##### **Evolving nature of intermediary business models**

The FCA focussed on the fact that an intermediary (or intermediary group) might act in different capacities for different parties, for example as insurance broker and insurer agent in the same transaction. They may also receive remuneration from each, creating the possibility of conflicts of interest.

Insurance intermediaries' business models have evolved over time. Some intermediaries have worked to expand their role in the distribution chain, taking on functions that are traditionally associated with the insurer in exchange for additional remuneration.

The FCA found that this evolution has heightened the risk of conflicts of interest.

##### **Frameworks and management information for dealing with conflicts have not kept pace with the evolution of intermediary business**

It is the management of these situations that the FCA draws attention to in its report, highlighting the fact that many of the intermediaries studied had conflict management frameworks and management information that had not kept pace with business models, meaning such frameworks no longer adequately dealt with the conflicts of interest.

The changing nature of the relationship intermediaries have with both their customers and the insurers they act as agent for, has an impact on how conflicts of interest need to be addressed and dealt with.

##### **In some cases, management information is insufficient**

One finding was that the management information available in some intermediaries was inadequate to allow senior management to be confident that conflicts had been effectively identified and managed. As a result, some businesses were unable to show that decisions were being made in the interests of the customer rather than in the interests of the firm.

##### **Company policies on conflicts are generally good although implementation is insufficient**

The FCA comments that:

*Some firms relied heavily on principles set out in their company policies to mitigate conflicts of interest, without building appropriate procedures, controls and management information to ensure that these policies were followed.*

Therefore, while many intermediaries have good policies to address conflicts of interest, the implementation of those policies is not sufficient.

##### **More traditional business models have less exposure to conflicts of interest**

In contrast to the situations where conflicts of interest are becoming more frequent due to the evolution of the intermediary's business model, the FCA found that those intermediaries that operate more traditional models with a focus on broking functions and acting as agent for the customer appear less exposed to conflicts of interest.

#### The FCA's next steps

As a result of its findings, the FCA is now planning to take a number of actions, including:

- Supervisory engagement with intermediaries;
- Circulating the findings of their report to the wider insurance industry; and

- Providing further information and education to SME customers, particularly highlighting the fact that SME customers are entitled to receive full disclosure of commission and remuneration information on request.

Given the indications that the FCA will be maintaining or increasing its focus in this area, intermediaries would be well

advised to review the adequacy of their own management information, and procedures for dealing with possible conflicts of interest in their business. Burges Salmon is well placed to provide assistance and advice in this regard.

## Contact

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