

Deregulation of Insurance Sales to Domestic Customers

In order to keep everyone up to date on the present position and following on from our previous newsletters regarding the deregulation of insurance sales to retail (private customers), we would advise as follows:

HM Treasury have now published a response to the consultation paper. There has been overwhelming support for “Option 3” of the 3 options considered. Option 3 suggested that Removals & Storage & Self Storage companies could be removed from the scope of FSA regulation and could extend “open cover” insurance policies to include the goods of retail customers in exchange for a premium charge.

In addition a suitable code of practice is to be in place to minimise consumer detriment as well as a requirement that members voluntarily join the jurisdiction of the Financial Ombudsman Service (likely charge approx £60 per annum). This option was negotiated by the trade association working groups directly with the Treasury which included a representative from Reason Global Insurance, the only insurance broker invited to do so.

The Treasury will lay a Statutory Instrument (effectively changing legislation) before Parliament, amending the original act. It is estimated that this will take approx 3 weeks. It is envisaged that it will “stand up to Parliamentary scrutiny”. **The proposed deregulation will come into force from 6th April 2009.**

In the published responses the Government accepts that the code of practice will not cover all Removals and Self Storage Companies but that with coverage of around 80% of business by the BAR and SSA by turnover the risk of consumer detriment is small and that overall deregulation represents an improvement on the current position.

The published document also deals with the question of Removers and Self Storers marking up insurance premiums for a profit. It is accepted that this will happen but that the setting of premiums is a competitive practice that will be dealt with by the market.

For those that are directly authorised or an appointed representative at present there is now the choice to remain within the FSA regime or to deregulate. Those that are not regulated currently need to decide if they wish to move away from a liability or SSA Licence Agreement basis and back to selling insurance.

Your three options are therefore:

- Stay FSA Authorised or an Appointed Representative
- Use the new deregulated route to sell insurance
- Stay with liability or SSA Licence Agreement route

There are, of course advantages and disadvantages with whatever route you wish to take:

Stay Regulated

Advantage – Can continue to use the badge of a FSA Authorised and regulated company.



Deregulated Route

Advantages

- Can 'sell' insurance again without the need to be FSA authorised and regulated
- No need to effect professional indemnity insurance to cover insurance advice
- No FSA rulebook to comply with particularly regarding what you can charge customers
- No FSA or AR fees
- No 'Ball and Chain' of being an AR of a broker
- You can offer a 'policy' and charge a 'premium'
- Clearer and easier for customers to understand what they are buying
- Can choose excess on policy and not have to pay excesses on claims settlements (removers liability terms only)

Disadvantages

- Selling insurance may invite more claims from customers?
- Need to change terms and conditions and paperwork

For those of you that are presently regulated and choose to deregulate we would advise that you should apply to cancel your permission with the FSA before 31st March 2009 to avoid paying full fees for the 2009/10 period.

You will then be able to conduct regulated business until 6th April 2009 and not be liable for the full fees for 2009/10.

If your application to cancel is not received by the FSA until after 31st March 2009, you will be liable for the full year's fee.

If you choose to deregulate you will need to change your terms and conditions or Licence Agreement. We understand that the BAR and the SSA are revising their conditions/agreements accordingly and they will be in contact with you.

What to Do Next?

Ideally if you wish to change from your present method of insuring from 6th April you need to notify us as soon as possible so we can prepare the necessary paperwork for you if you are an existing client.

The choice to change of course does not have a time limit and you can change to the new deregulated route at anytime in the future if you are a BAR or SSA member.

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