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Reducing reputational risk for insurance brokers –

How can we enhance public perception?

By Selena Kearvell

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Acknowledgement

Please note that the section 'Use of unrated insurers' is taken from my research and work as part of the New Generation 2017 Insurance Broking assignment. Elements of the section were worked upon in small groups. I played a significant role in writing the original assignment.

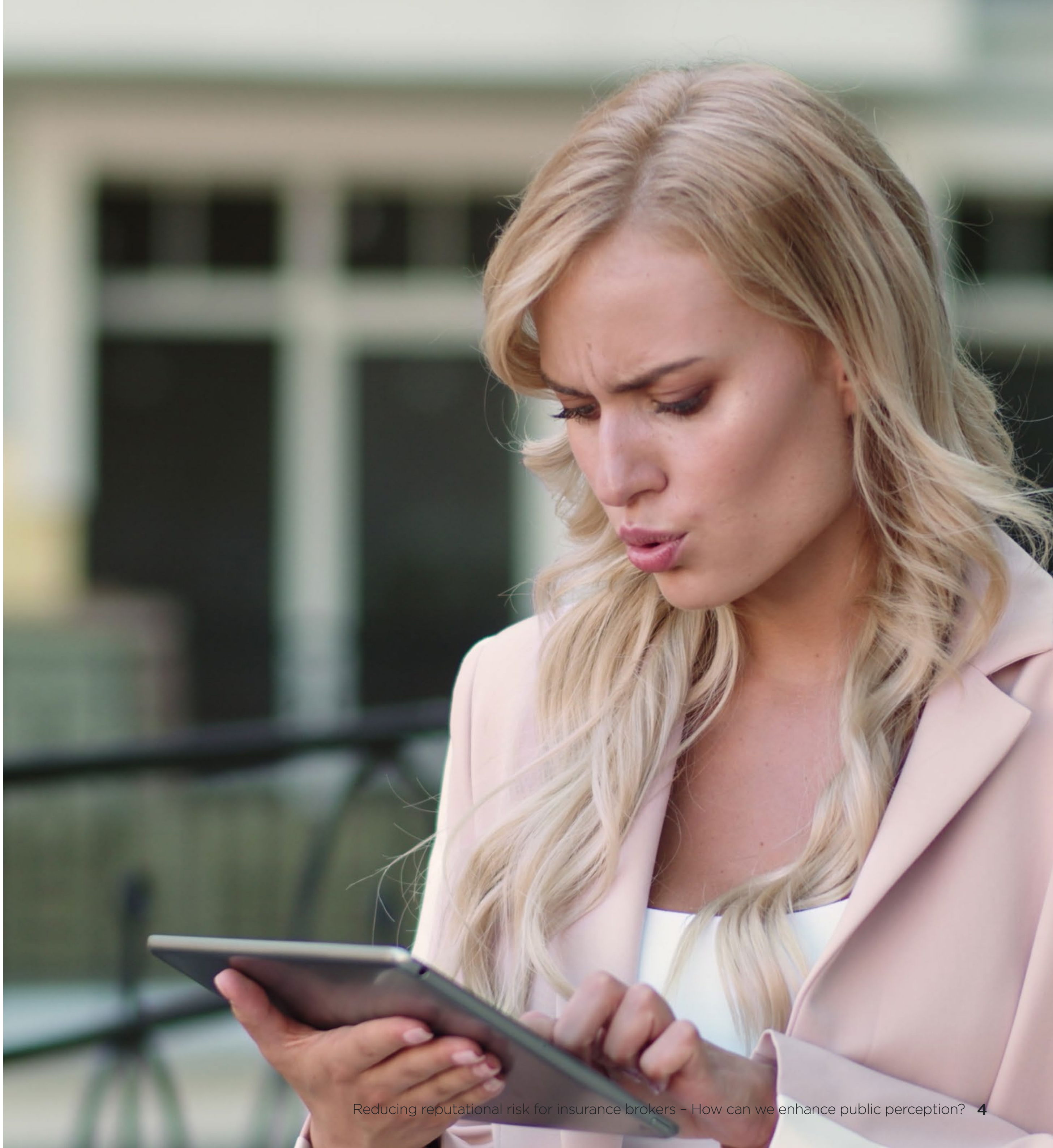
Introduction

Tackling the poor reputation of the insurance sector is a key priority for insurers, brokers and all those working within the sector. Much has been written about the insurance sector suffering from a poor reputation due to the damage inflicted on the entire financial services sector following the banking crisis.[1]

Further arguments describe insurance as a 'grudge purchase' which accounts for its unpopularity along with the intangible nature of the product. As referenced in Brent Kelly's *"Why people can't stand insurance"* blog, "you get to sell a product that nobody likes, understands, thinks is too expensive, and only use when something bad happens".[2] Other areas often pointed to include poor service experienced by consumers and delayed claims payments – often highlighted by the media.

1 www.abi.org.uk/globalassets/sitecore/files/documents/publications/public/2015/a-brave-new-world/trend-6.pdf

2 www.sitkins.com/blog/why-people-can-t-stand-insurance-and-what-you-can-do-about-it



Introduction - continued

The insurance sector enjoys a long history steeped in tradition with long-established practices, both in the UK and worldwide. The Great Fire of London in 1666 destroyed property valued at £10,000,000 (c. £1billion in today's money) and concomitantly the world's first property insurance policies were formulated.[3] In the 17th century, Edward Lloyd's Coffee House became recognised as the venue for obtaining marine insurance and this is where the 'Lloyd's' we know today originated.[4] Despite the many people and businesses that have benefited from insurance over the years, from a contemporary perspective, the insurance sector has arguably not managed its own reputational risk adequately and suffers from an image crisis; often being 'reviled' by the general public.[5] I believe there are however areas within our control as an industry that we can improve on to change and enhance public perception of insurance and insurance professionals.

The focus of this discussion paper is on that of insurance brokers and the factors that have contributed to the public's poor perception of insurance agents. Insurance brokers fall into the category of 'professional services', however, they do not seem to garner quite the same respect as accountants, lawyers, or architects.[6] Accountancy, for example, seems to have no difficulty in attracting and retaining applicants[7] – the opposite of what is currently being experienced in the broking sector.

Although not exhaustive, I discuss four areas which may increase reputational risk and negatively impact the perception of the insurance industry, specifically insurance brokers:

1. The sector has traditionally lacked diversity in its makeup – is this still the case?
2. Insurance broking has no entry requirements in terms of qualifications - would brokers earn greater respect if they were more 'qualified'?
3. Brokers recommend insurers to customers – the use of unrated insurers has garnered press attention where insurers have liquidated, does the recommendation of unrated insurers affect the way people view insurance brokers?
4. Finally, insurance brokers currently work on commission or fee or both – does the way in which brokers are remunerated cause distrust from customers and the general public?

I expand on each of the above topics below and review the evidence to support my assertions that the above areas represent causes for concern. I believe the solutions and recommendations outlined in the conclusion will help reduce reputational risk for insurance brokers and help improve the perception of the sector as a whole.

3 www.museumoflondon.org.uk/discover/how-great-fire-london-created-insurance

4 www.lloyds.com/about-lloyds/history

5 www.insurancebusinessmag.com/au/news/breaking-news/how-to-change-the-public-perception-of-insurance-59904.aspx

6 blog.newhorizonsmktg.com/why-insurance-agents-get-a-bad-rap-and-how-you-can-change-it

7 www.accountancyage.com/2018/01/30/lies-store-accountancy-2018/

Diversity within the sector

The insurance sector prides itself on being about people – protecting people, their assets and their livelihood. Given this end-user centric approach, insurance brokers need to ensure they represent the people they service; customers of insurance could be from very diverse backgrounds.

Diversity can include race, ethnicity, gender, sexual orientation, socio-economic status, age, physical abilities, religious beliefs, political beliefs, or other ideologies.[8] PricewaterhouseCoopers (PWC) identifies an organisation embracing diversity as one where "Individuals of all backgrounds, life experiences, preferences and beliefs are recognised and respected as individuals and valued for the different perspectives they bring".[9]

8 www.qcc.cuny.edu/diversity/definition.html

9 www.pwc.co.uk/industries/financial-services/insights/opening-up-on-diversity.html?cq_ck=1487612531853

Diversity within the sector - continued

There are many 'ethical' reasons why a company should encourage different types of people to join their firm and ensure they work together harmoniously. Nevertheless, the purpose of a business is to maximise long-term shareholder value;[10] will increasing employee diversity achieve this and ensure that public perception is improved? Consultancy firm McKinsey has found that companies with a diverse workforce outperform their competitors. Companies in the top quartile for gender or racial and ethnic diversity are "more likely to have financial returns above their national industry medians"[11]. McKinsey's research also shows that companies embracing all types of diversity are better able to attract top talent, increase employee satisfaction and improve the diversity of their own customer base. Research also suggests that a diverse employee base encourages innovation which can be critical to the survival and growth of a business.[12]

The insurance sector is currently not ranked highly for diversity. Deloitte's "Talent in Insurance" 2015 report revealed that the insurance sector ranked in the lower quartile for "acceptance towards minorities".[13] 2018 saw the release of the gender pay gap data and the extent of the pay differences between men and women in the UK. Overall financial and insurance firms report, "a mean gender pay gap of 25.9%, and a mean gender bonus gap of a whopping 45.5%".[14] This implies there are still few women in more senior leadership roles. The treatment of women in the sector has also come under scrutiny, "Insurance is very much an old boys' network, particularly so on the broking side".[15] Conversely, according to the Insurance Census of 2017; the sector attracts a mix of those that identify as LGBT, "Today, 14% of the insurance population do not see themselves as heterosexual".[16] It would appear then that acceptance toward ethnic minorities and promoting women above middle management represent key areas to improve on.

Howard Lickens, CEO of Clear Insurance commented, "It's going to take a long time for the white male domination of broking to subside...We need to make sure that as many young female and ethnic staff are attracted to the industry as possible, as it's going to be a long haul".[17] The Insurance Post's 2017 census acknowledged that white, middle-aged and male used to be the image of the insurance sector[18] and that many would argue this is still the case, particularly above entry level roles. Furthermore, despite the widespread agreement that more young people must be recruited into the sector to ensure its survival, the average age of an insurance employee has risen to age 39 since Post's 2015 census.

Ferdman and Deane (2014) report research that suggests the representation of multiple identity groups and their cultures does not necessarily result in positive benefits in and of itself. i.e. diversity is no silver bullet which will ensure the insurance broking sectors survival long-term. In addition, with regards to commercial insurance broking, an insurance broker will often deal with a CFO or Finance Director. The majority of directors on UK boards are still white, middle-aged males.[19] Therefore, perhaps insurers are already representing the people they service with regards to commercial insurance placements?

10 Sternberg, E. (2000). Just business. Oxford: The University Press

11 www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters

12 McKinsey (2015). Diversity Matters (Report PDF, page 5, accessed via www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters)

13 www2.deloitte.com/uk/en/pages/financial-services/articles/talent-in-insurance.html

14 www.insurancebusinessmag.com/uk/news/breaking-news/what-to-do-about-insurances-gender-pay-gap-98307.aspx

15 www.theguardian.com/commentisfree/2011/dec/05/insurance-broker

16 www.postonline.co.uk/broker/2481654/insurance-census-2017-face-of-insurance

17 www.postonline.co.uk/broker/2481654/insurance-census-2017-face-of-insurance

18 www.postonline.co.uk/broker/2481654/insurance-census-2017-face-of-insurance

19 www.ft.com/content/4fbf50a4-8c30-11e8-bf9e-8771d5404543

Diversity within the sector - continued

Ferdman and Deane identify additional conditions to be met; an **inclusive**, as well as **diverse** climate must be fostered to reap rewards; "Inclusion involves how well organisations and their members fully connect with, engage and utilise people across all types of differences".[20]

People tend to get on with people similar to them and so are there are risks in diversifying the work force. HR personnel and recruitment professionals will need to be more engaged and aware of any challenges associated with diversity so any issues can be prevented or addressed. Diversity training may need to be undertaken so that clashes between different cultures are reduced and employees are better equipped to understand, accept and respect each other's differences.[21]

The downsides to ignoring the lack of diversity and inclusion in the insurance sector are listed by PWC[22] and include:

- Deterring talent
- Lacking innovation
- Putting off customers
- Difficult questions from investors
- Eroding government support
- Eroding regulators confidence

The above demonstrates that the insurance sector is not diverse enough with regards to gender, ethnicity and age - despite perceived benefits referred to above. A lack of diversity, I believe, could reinforce negative perceptions of the sector and put off potential customers from using brokers.

20 Ferdman and Deane (2014) page 4

21 www.thiswayglobal.com/blog/top-diversity-issues-in-the-workplace/

22 www.pwc.co.uk/industries/financial-services/insights/opening-up-on-diversity.html?cq_ck=1487612531853

Qualifications and professionalism

The Daily Telegraph published "The Eight Biggest Challenges Facing Brokers in 2018"[23] and a key issue was a 'skills shortage'. The Chartered Insurance Institute (CII) is quoted as stating, "81% of brokers have reported a shortage of technical skills in their business up from 59% just two years ago".[24]

Currently there is no obvious academic route to becoming an insurance broker, nor are there mandatory qualifications to achieve before you can start giving advice on insurance placements. There is yet no 'insurance' degree that can be undertaken at university for insurance brokers. Due to this, the prestige of becoming an insurance broker is unlikely to match that of an accountant who must complete the ACCA or

23 www.telegraph.co.uk/business/risk-insights/biggest-challenges-facing-brokers-2018/

24 www.telegraph.co.uk/business/risk-insights/biggest-challenges-facing-brokers-2018/

Qualifications and professionalism - continued

similar, or a lawyer who must complete the LPC or equivalent following a degree in a related discipline. As the Telegraph article asserts,[25] "when you deal with a doctor, solicitor or an accountant knowing they adhere to a set of professional standards can provide considerable reassurance". These are mandatory not optional qualifications.

The need to up-skill the insurance sector has long been recognised. The Aldermanbury Declaration, launched circa 2010, encouraged insurers and brokers to sign up to the framework ('framework not a rulebook') with a pledge to meet the standards set out by December 2013. This included achieving certain levels of qualifications for insurance brokers, viz: two of the following four:

- 25% of board hold a Chartered title
- 50% of board hold Diploma
- 1% of Customer Facing Staff hold a Chartered title
- 25% of Customer Facing Staff hold Certificate or higher

This would have ensured consistency of process and professionalism amongst insurance brokers. Whilst it had some success with hundreds of broking firms signing up, a few influential companies missed the deadline and the mark.[26] Why should the bar for insurance professionals to achieve minimum qualifications, act ethically, carry out CPD and put customer service at the centre of their business be optional? Perhaps increased consistency amongst the qualifications brokers have and the way brokers operate would help enhance public opinion.

The 'Chartered status' achieved by some insurance brokerage firms hopefully reassures clients and customers when they choose their broker. However, because a firm has 'corporate' Chartered status does not mean the individual does. The number of people holding a Chartered title through the CII fell for the first time in 2018 since 2008.[27] The CII published a report entitled "The Future of Commercial Insurance Broking"[28] and asserted that previously, technical skills were developed in broking through regular 'injections of talent from underwriting organisations', over time this has reduced. The CII posits that a skills gap will affect the insurance broking model with most newly created jobs being highly skilled as administration tasks become automated - opportunities and rewards will come to those with expertise and qualifications will grow in importance.[29] The report goes on to comment that insurance brokers need to expand their conversations with clients from just the price and placement of insurance coverage to a more 'holistic risk advisory' conversation. This will require increased up-skilling of many insurance broking professionals and mandatory professional qualifications may assist to this end.

Qualifications are however not a panacea and must be coupled with continued training and development giving exposure to the right kind of experience to drive the highest standard in customer service and advice. Someone can have a great deal of experience and knowledge in placing and advising on insurance but not necessarily any qualifications – be they academic or professional in nature. Younger people who are not necessarily academic may be attracted to an insurance career and want to start an apprenticeship programme and learn skills 'on the job'. As we are trying to entice younger people to work in the sector, arguably

25 Ibid
26 www.branko.org.uk/22_Jan_2014_Aldermanbury_Dec.pdf
27 www.ftadviser.com/your-industry/2018/08/06/cii-chartered-numbers-down-for-first-time-in-decade/
28 www.cii.co.uk/media/.../future-of-commercial-insurance-broking-report.pdf
29 Ibid.

Qualifications and professionalism - continued

only taking on graduates may reduce any new intake overall and ironically reduce the diversity we see joining the sector, as the significant cost of university may mean that all new starters on a graduate scheme come from a similar socio-economic background. Many people in the industry were school leavers when they joined the sector and have worked their way up taking on a multitude of roles to rise through the ranks. The 'experience vs. education' debate is a well-known one amongst employers. Forbes recently printed an article[30] which showed the tech industry value experience more than education or a degree.

Whilst I do not believe those in the sector that have worked for twenty-plus years should need to sit exams, I do believe increasing the professionalism and qualifications of brokers in general with a focus on those less experienced and/or new entrants to the sector could help reduce the reputational risk of brokers and potential mis-selling, improve public perception and attract talent to the sector. Any training should also include professional exams and training such as negotiating and communication skills.

30 www.forbes.com/sites/quora/2016/09/15/data-shows-tech-employers-are-looking-for-experience-over-education/#15713fe1719c

Use of unrated insurers

An unrated insurer[31] is one that does not carry an insurer financial strength rating given by an international rating agency, such as Standard & Poor's 500 index (S&P), Moody's, Fitch Ratings and A.M. Best.

Using Fitch's definition, the insurer financial strength rating "provides an assessment of the financial strength of an insurance organisation and its ability to pay claims to its policyholders".[32]

Most brokers have strict rules regarding the markets they can place business with, e.g. only markets with a minimum S&P rating of BBB. As Adler Insurance note, "there is no legal requirement for an insurer to be rated, and brokers are not obligated to solely conduct business with rated insurers".[33] Again, as with qualifications and professional standards – nothing is standardised and mandated across all insurance brokerage firms.

31 Please note that this section is from the work and research I undertook as part of the CII New Generation 2017 Project on the Use of Unrated Insurers – un-submitted – see Acknowledgements (page 1)

32 www.adlerinsurance.co.uk/knowledge-centre/what-is-an-unrated-insurer/

33 Ibid

Use of unrated insurers - continued

When a broker is considering using an unrated insurer, there are two risks; that they could be liable for damages to their client and secondly, the reputational damage to the firm. If a client loses insurance coverage and their potential indemnity due to an insurer failing, they may blame their insurance broker for not using their market knowledge to select an adequately capitalised insurer. The principle that a broker owes its clients a duty of care is established in law; the case of Osman v J Ralph Moss [1970] shows that duty includes selecting appropriate insurers. An insurer whose "shaky financial foundation was well known in insurance circles at the time" was selected by the above broker. Upon its failure the broker's client was found to have been driving without insurance following a claim. The broker was found liable for the costs of the accident and for the penalty for driving without insurance. Insurance brokers are aware of such risks to their business, and therefore may issue 'chicken letters' to their clients explaining that the market does not meet the broker's usual minimum credit rating and asking for permission to place business there. With this permission in place it would be more difficult to establish negligence on behalf of the broker however the reputational risk is still prevalent – even if the client gives permission in writing.

Enterprise Insurance was a Gibraltan insurer not rated by any agency. An estimated 46,000 policyholders were affected by the collapse of Enterprise Insurance.[34] A report written by Grant Thornton, liquidators for Enterprise, has shown that the insurer had 760,000 live policies via 54 brokers when they were ordered to stop writing business.[35] Grant Thornton's report highlighted insurance debts of £74.9m with a 'prospective deficiency' of £94.4m. The figures quoted do not consider the cost of the liquidation.[36] Where a UK-based broker placed policies with Enterprise, the Financial Services Compensation Scheme (FSCS) or broker may be liable for the bill – neither of which is good for the sector.

Gable was unrated but this did not prevent partnerships with brokers such as Towergate, Aon and iprism as it looked to boost its gross written premium. Gable was ordered to stop trading on 7th September 2016 by the Liechtenstein regulator, entered administration in October and began the liquidation process in November. To date 28,000 return premium payments have been made to former policyholders totalling £8.3m.[37] The payments are funded by a supplementary levy for general insurers, of £63m which was announced by the FSCS in January 2017 following the failures of Gable and Gibraltar-based Enterprise.[38] Peter Blanc, CEO of Aston Scott, said that Gable's plight was a warning to brokers about using unrated insurers, "The requirement on brokers to do due diligence has always been there," he said. "when unrated insurers collapse, it does reputational damage to our whole industry".[39]

There are of course reasons why insurance brokers use unrated insurance markets. The unrated insurer can provide capacity for unusual or high-risk business that wouldn't normally be covered or would be hard to place in the normal marketplace. Therefore allowing certain trades and businesses to trade and provide a service. Other reasons include:

- Prices can be significantly more competitive – they may be able to provide reasonable pricing on what rated insurers would deem higher risk cases

34 www.fscs.org.uk/news/2016/october/fscs-will-pay-thousands-of-motor-policy-holders-following-the-collapse-of-enterprise-insurance/

35 www.fsc.gi/download/adobe/ProvisionalLiquidatorSignedReport211016.pdf

36 www.insuranceage.co.uk/insurance-age/news/2476644/liquidator-reveals-enterprise-sold-unauthorised-business

37 www.fscs.org.uk/news/2017/july/update-on-gable-insurance-ag/

38 ww.insurancetimes.co.uk/insurers-hit-with-costs-for-gable-and-enterprise-collapses-/1420742.article

39 www.postonline.co.uk/2474795/the-rise-and-fall-of-gable-where-does-this-leave-brokers

Use of unrated insurers - continued

- Only Option – often rated insurers can have stricter underwriting guidance which means certain businesses/owners may not be able to source cover. If this is the only way to get Employers Liability or Road Traffic Accident cover for a business, then it is a market necessity
- Some unrated insurers are not high risk as the term would suggest. They have traded for several years and already have a stable base in the UK
- Many unrated insurers are supported by the Prudential Regulatory Authority and the Financial Conduct Authority (FCA), which are the same authorities that endorse A-rated insurers.

The FSCS may pay out for claims that the failed unrated insurer cannot meet, but cannot offer 100% compensation in all cases. It could also be argued that rating agencies are no guarantee of the carriers' credibility with the failure of rated insurers casting doubt on the purpose and extent of ratings provided by the agencies.

In a consultation paper issued in December 2016, the FCA posed the idea of forcing brokers to pay a higher levy to the FSCS if they use unrated insurers to place business.[40] This was abandoned however as it would have a negative effect on small and mutual businesses that do not have a rating.[41]

Following the collapse of a third unrated insurer in two years (Alpha, Gable and Enterprise) the FCA is concerned by the use of unrated insurers and has issued guidance stating that they "expect insurance brokers to demonstrate that they have carefully considered the insurers that they place their customers' business with", and outlined examples of due diligence that can be undertaken, e.g. reviewing audited accounts, Biba Litmus test,[42] checking complaints and the FCA register. A legal requirement to use 'rated' insurers or an increased levy on brokers that use unrated insurers – thus acting as a deterrent – may help reduce reputational risk for insurance brokers.

40 www.fca.org.uk/publication/consultation/cp16-42.pdf

41 www.postonline.co.uk/broker/3596446/analysis-has-the-industry-learned-its-lesson-after-the-collapse-of-a-third-unrated-insurer-in-two-years

42 www.biba.org.uk/press-releases/biba-launches-new-facility-help-members-review-financial-position-unrated-insurers/

Remuneration

Where the public views some insurance companies as wanting to avoid claims, they may also see insurance brokers as 'secretive', hiding how much they really earn. This may cause a breakdown in trust resulting in significant reputational damage.

There is a raft of articles on the internet encouraging distrust, e.g. 'What your insurance broker doesn't want you to know.'[43] The need for standardisation across all broking firms is not to suggest, necessarily that smaller firms need to bring themselves up to the level of larger firms – indeed with regards to remuneration perhaps it is the larger broking firms where more issues lie.

Insurance brokers earn money in a variety of ways, none of which are necessarily made clear to the customer or client. The most straightforward is a simple fee arrangement between broker and client. More commonly,

43 www.theglobeandmail.com/report-on-business/what-your-insurance-broker-doesnt-want-you-to-know/article561110/

Remuneration - continued

however, the broker earns a commission, which is agreed with the insurer but taken out of the premium paid by the insured. The insured pays Insurance Premium Tax (IPT) on the whole amount. The Insurance Distribution Directive (IDD) came into effect October 2018 and was designed to create a more level playing field across all participants selling insurance products to consumers. The IDD mandated remuneration disclosure - all insurance brokers must disclose the "Nature (type of remuneration i.e. commission) and Basis (source of the remuneration i.e. insurer)" of the remuneration, but it stops short of having to disclose the actual earning figure in cash terms.[44] The Insurance Conduct of Business Sourcebook (ICOBS) only requires a broker to disclose their commission to a commercial customer if the customer requests it (ICOBS 4.4).[45]

As noted in Out-law, "In some circumstances, the insurer and the broker may have entered into a further arrangement whereby the broker receives an additional fee or commission from the insurer for bringing in a certain volume of business or reaching agreed profit targets"[46].

This is sometimes known as a contingent commission, placement service agreement or market service agreement, and arguably causes a conflict of interest. The investigation launch into contingent commissions (Spitzer inquiry) brought about more transparency but contingent commissions still persist.[47]

"The 2005 settlement with the three biggest brokers—Marsh & McLennan Cos. Inc., Aon P.L.C. and Willis Group Holdings P.L.C.—banned them from accepting contingent fees until 2010. Since then, brokers have begun accepting them to varying degrees again under certain circumstances".[48] As an example, Marsh outlines on its website all the ways in which revenue is generated.[49] This can be summarised as:

- **Retail commission** – percentage varies depending on policy and provider
- **Client fees** – which client will approve pre-placement
- **Insurer consulting compensation** – compensation from insurers for providing consulting, data analytics or other services
- **Contingent commissions** – where Marsh meets set goals for insurers
- **Compensation for insurer administration and other services** – panels, facilities, quota shares and other placement arrangements with insurers
- **Other benefits or compensation** – where legally permitted, Marsh earns interest and other income on premium accounts
- **Contractual arrangements with insurers** – claims administration services, internet-based insurance placing facilities
- **Other** – equity interests in a small number of insurers or reinsurers.

No statement can be found from Aon or Willis who are undoubtedly remunerated in a similar way. Given all the different ways a large broker can earn income, is the broker truly acting as an agent of the client – or the insurer? An insurance broker has a legal duty to act in good faith in which they believe to be the interest of the client.[50] However it is possible that taking contingent commission payments,

44 insight.rwabusiness.com/blog/posts/2017/november/commission-disclosure-under-the-insurance-distribution-directive/

45 www.fca.org.uk/firms/insurance-conduct-business-sourcebook-icobs

46 www.out-law.com/page-8927

47 www.businessinsurance.com/article/20120715/NEWS06/307159996/Spitzer-inquiry-brought-transparency,-but-contingent-commissions-persist

48 www.businessinsurance.com/article/20120715/NEWS06/307159996/Spitzer-inquiry-brought-transparency,-but-contingent-commissions-persist

49 www.marsh.com/my/about-marsh/transparency-and-disclosure.html

50 www.out-law.com/page-8927

Remuneration - continued

either directly or indirectly, may influence who a broker places the clients business with – to detriment of the client.

If income is generated from business activities that do not affect the client, in terms of either the market they are placed with or the premium, then it could be argued that these should be permissible. Some arrangements may also benefit the client, e.g. broker 'facilities' where one insurer is used for a minor line of business where all policyholders benefit from economies of scale (e.g. PA travel or computer cover). Some clients may not care how a broker is remunerated if they believe the broker has obtained the best deal and services the account well. Taking commission also avoids any fee based negotiation which will save the broker and the client from what can be an awkward conversation. Brokers who have traditionally earned commission and have never been asked "how much" by commercial clients before, may find it difficult making the switch from taking commission to a fee-based discussion. It does however seem somewhat counter-intuitive that the better the negotiating job a broker does, the less they will get paid if their remuneration is based on commission only.

The Retail Distribution Review (RDR) introduced in 2013, changed the way life and investment products were sold by abolishing commission payments from providers and introducing advisory fees, i.e. "clients would be paying for the advice they receive rather than for the products they were being recommended".[51] Some argue that the RDR brought about higher qualifications (in order to give robust advice), greater transparency of earnings and greater transparency of the types of services available to customers and choice.[52] Did the RDR improve public perception of advisors and reduce their reputational risk? Gemma Harle, MD of Intrinsic commented, "The clients' experience has been greatly improved after the RDR removed the link between advisers and commission and promoted a more service-oriented industry".[53] However the number of advisors has decreased (c.20%)[54] as many left the sector some unwilling to meet the new qualification criteria and embrace increased transparency and scrutiny which has arguably negatively impacted customers.

If something similar to the RDR were introduced in the insurance broking world, a move to greater transparency and change in remuneration may too have unintended consequences. Nevertheless, insurance brokers should increase transparency and move from charging commission to a fee-based conversation with both consumers and commercial clients. The persistent lack of true transparency on earnings could continue to cause reputational damage to insurance brokers and general mistrust from policyholders.

51 www.ftadviser.com/your-industry/2019/05/23/how-adviser-charging-differs-from-commission/

52 www.ftadviser.com/your-industry/2019/05/23/how-adviser-charging-differs-from-commission/

53 www.ftadviser.com/regulation/2019/05/23/long-term-impact-of-rdr-will-be-positive/

54 www.moneymarketing.co.uk/first-official-rdr-stats-adviser-numbers-down-20-bank-advisers-fall-44/

Conclusion

I outlined at the start of this discussion paper that the insurance sector, more specifically insurance brokers, suffer from an image crisis where public perception of the work carried out is undervalued. I discussed four areas which arguably pose reputational risk and assert that reviewing the way we operate will help enhance public perception.

With regards to diversity, this encompasses; race, ethnicity, gender, age, socio-economic status, physical abilities, sexual orientation and various ideologies. Evidence shows that the insurance sector in particular is not diverse with regards to gender (especially women in higher levels of management), ethnicity and age - despite perceived benefits referred to above and the many downsides to ignoring a lack of diversity. One potential solution to the issue would be for all insurance brokers to have a 'diversity and inclusion champion' who links in with HR and recruitment. Their role would be to help raise awareness, deliver training and

Conclusion - continued

drive the diverse and inclusive workplace that Ferdman and Deane outline. A more diverse and inclusive workplace will help insurance brokers maximise long-term stakeholder value, enhance public opinion and help attract new talent into the sector.

The second point raised was around qualifications and the growing lack of technical expertise amongst brokers. Whilst there is no 'insurance broking' degree available, there are many apprenticeship programs with insurers and brokers alike. As discussed above, introducing mandatory qualifications which a broker must earn before being able to trade may help put insurance brokers on more of a par with other professionals, e.g. solicitors, accountants, etc. In addition, brokers could develop in-house training programmes where new starters can spend time with underwriting contacts. I would also recommend that the Aldermanbury Declaration is re-launched and put forward as a rule book (and not a framework). The only change I would make is that *all* client facing staff must at least hold the Dip CII qualification. This would help provide some reassurance and consistency to the public and also enable them to differentiate between brokerages that have staff with Cert CII and those who have staff that are ACII and/or Chartered.

The third point I raised was around the use of unrated insurers. Customers rely on insurance brokers to recommend suitable markets, the placement of business with unrated carriers poses a significant reputational risk to brokers if they default and collapse, as per Gable and Enterprise discussed above. There are legitimate reasons for placing business with unrated insurers such as when a company cannot afford premiums from rated insurers. However, one solution is that brokers who continue to place business with unrated insurers pay a higher levy to the FSCS – as initially suggested in the 2016 consultation paper.[55] Ideally, I propose that brokers eventually cease using unrated carriers completely, however a levy would at least act as a deterrent and signal a move from the FCA to discourage the practice and help protect policyholders and brokers' reputations alike.

Finally, I suggested that the public may be wary of insurance brokers due to the way in which some are remunerated. Commission is not always disclosed as fully as it could be to policyholders – as noted above, per ICOBS 4.4. commercial customers will only find out the amount the broker is earning if they ask. Whilst taking commission isn't inherently 'bad', clearly charging a fee is more transparent for consumers and commercial customers alike – the RDR has shown that this step-change can be implemented albeit some brokers may leave the sector who do not wish to operate in this way. Charging a fee should mean there is no doubt that a broker is at all times trying to find the widest, most appropriate cover at the lowest price available with a suitable carrier.

In summary, insurance brokers deserve more respect and appreciation from wider society but reforms are needed to improve the reputation and relationship with the general public and stakeholders. As a sector which has been in business for many generations, I believe we are approaching a tipping point where changes will need to be implemented to ensure that insurance brokers not just survive but flourish long-term.

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