

THE BIG STORY

# Businesses run risk by skipping advice

Looser regulation and the rise of aggressive aggregator websites mean insurance customers will now often eschew professional regulated advice, leaving both themselves and brokers' traditional business model in a vulnerable position



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Roman philosopher Cicero said: "No one can give you better advice than yourself." His theory seems to have influenced EU legislators, the FCA and Biba, who all think consumers can buy insurance without expert guidance.

Giving customers professional advice – once the very definition of an insurance broker – is no longer a requirement for a broker selling general insurance in the UK. Aggressive aggregators led the way, developing the mythology that all motor, home and small business policies were identical and could be chosen on price alone.

The desire of consumers to click and buy online has hastened the downfall of advice. But not everybody thinks this is a good thing.

### Step change

Biba head of compliance and training David Sparkes told *Insurance Times* why the trade body has stayed neutral on the subject.

"The transposition of the Insurance Distribution Directive (IDD) created a step change in the obligations on firms that sell insurance policies. At the basic level, the rules now require insurance distributors – the official term – to let clients know whether or not they will receive advice from the firm," he said.

But Sparkes said even firms selling on a non-advised basis must consider customers' best interests. Brokers must undertake a demands and needs assessment and not present products that

do not match as a choice for the customer. "Where the insurance distributor is giving advice, the IDD has upped the ante too," Sparkes said.

"Instead of recommending a policy that 'would be adequate to meet the customer's needs', the rules now require the firm to 'provide the customer with a personalised explanation of why a particular contract of insurance would best meet the customer's demands and needs'."

Biba produces guidance for firms choosing either option, or both, but the days when Biba's rules obliged members to provide the best insurance solution available to customers are history.

"Biba has made a conscious decision to focus on representing members rather than regulating them. We prefer to leave regulation to the actual regulator," Sparkes said.

Those regulations are far from simple (see box), with an alphabet spaghetti of rules and guidance, including RAO (Regulated Activities Order), PERG (Perimeter Guidance manual), SYSC (Systems and Controls) and ICOBS (Insurance: Conduct of Business Sourcebook). But the FCA simplified it for *Insurance Times*.

"Whether or not advice is provided depends on whether the tests (as summarised in PERG) are met, not on whether the broker describes it as advice," the regulator said.

That means non-advice sellers have to be careful not to give advice at all. Biba member and managing director of broker FSB Insurance Service David Perry has a strict interpretation.

"Anyone who comes to our website to buy, we treat as a non-advised sale. Any interaction – even a web chat – and we treat it as an advised sale. Our terms of business change," he said.

Perry reckons 99.9% of his sales are

advised. He said most small business customers need and value that advice.

Simply Business is a non-advised only broker serving the SME market. Chief executive Alan Thomas said: "We understand no two customers' needs are the same, and tailor options accordingly."

He said it is important to present information with clarity and simplicity, explaining the cover available.

"This enables them to make an informed decision about what is best for their business," he said. When a client needs advice, Simply Business passes them on to "a trusted broker partner" or Biba's 'find a broker' service.

### Undesirable outcomes

The CII believes non-advised insurance sales are dangerous. Chair of the CII's Society of Insurance Broking Kevin Hancock said: "When making a non-advised purchase, most consumers don't know what they don't know, often until it's too late. By speaking to an experienced broker, the consumer will benefit from cover that suits their particular circumstances."

"Consumers that buy on a non-advised basis are at risk of having inadequate or no cover. That's not the outcome that anyone wants."

Society of Insurance Broking non-executive managing director Liz Foster agreed: "The vast amount of consumers, be they personal lines or commercial purchasers, do not have sufficient knowledge to compare products, differentiate their own risk from that of others or understand limitations that might prevent cover operating for them."

"There is no such thing as a simple policy wording – they all have restrictions, exclusions, conditions and warranties. How can the many and varied policies be adequately compared by the untrained? Non-advised purchases

leave purchasers at risk of both inadequate cover and, worse still, no cover."

### Best value

Some insurers, too, would prefer insurance brokers to give advice. Markerstudy head of broker management Anthony Foster is convinced those who choose non-advised sales would be better off getting broker advice.

"Most insurance customers are comfortable in the convenience of buying standard, more commoditised products through a non-advised, digital journey," Foster said.

"This can be low risk for less complicated, consistent requirements. But this route is no guarantee of best value and customers can be left exposed if cover differs to expectation when help is needed. Apart from being able to explain standard offerings in detail, brokers may have access to specialist products and underwriting facilities that can make a real difference to the customer's price, value and peace of mind."

The CII hopes brokers giving advice would be held in higher esteem than other sellers, but Hancock said he will not hold his breath.

"I'm not sure that the buying public cares whether someone is an 'insurance broker' or has some other descriptive title, or is a provider of a single insurer's product range," he said. ■

[insurancetimes.co.uk/news](http://insurancetimes.co.uk/news) IDD has been positive for the market, says Biba [07/10/19]

## Advising clients: the FCA position

The legal framework for advice is set in article 53 of the Regulated Activities Order (RAO). The Perimeter Guidance (PERG) manual 5.8 interprets the advice for insurance. More detailed guidance on advice is in PERG 8.24 to 8.31 and in PERG 8 Annex 1.

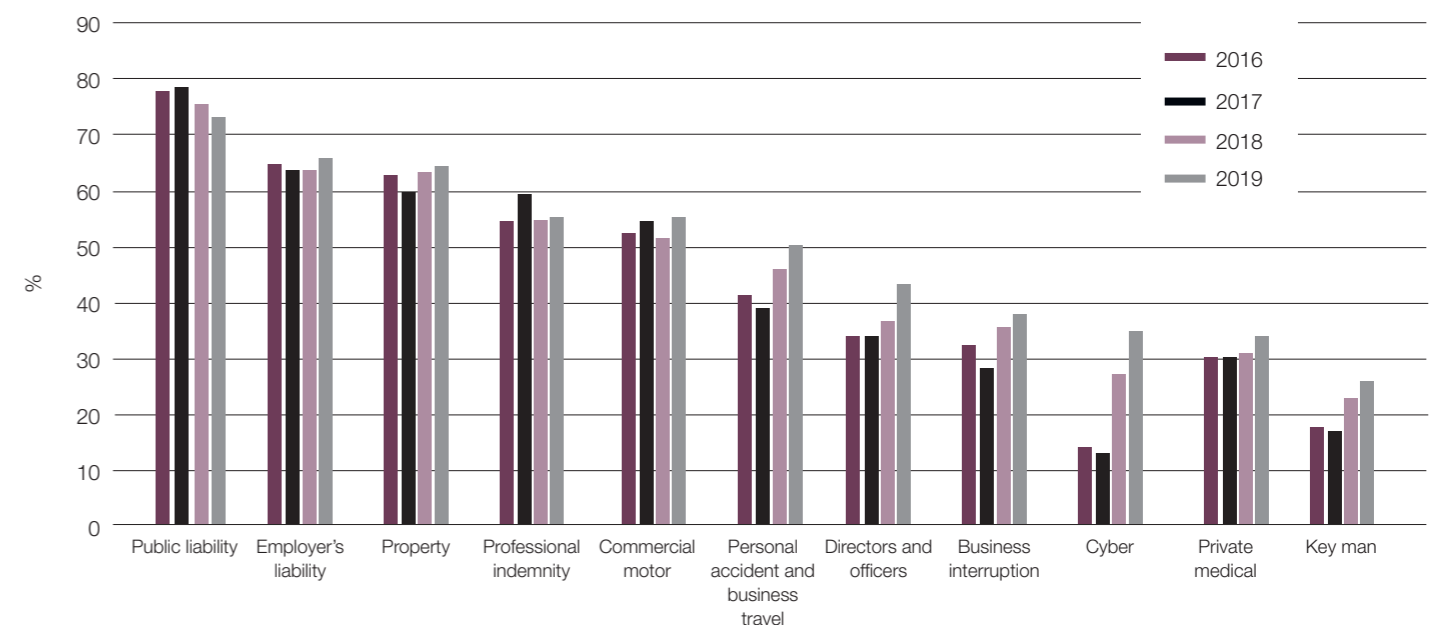
PERG 5.8.2G breaks down the FCA's interpretation of the tests for whether or not an insurance service amounts to advice. PERG 8.25 to 8.29 provide more information on these tests.

The qualification requirements are set out in the Training and Competence Handbook (TC). TC 4.2 covers insurance distribution. Senior Management Arrangements, Systems and Controls (SYSC) 28 sets out the knowledge requirements for insurance distributors.

For GI, the main difference is that the rules in the Insurance Conduct of Business Sourcebook (ICOBS) 5.3 apply. These require firms to take reasonable care to ensure the suitability of its advice and a personalised explanation of why a particular contract of insurance would best meet the customer's demands and needs.

If no advice is provided, firms must still follow the ICOBS 5.2 rules on demands and needs assessments. These require firms to propose contracts that are consistent with a customer's demands and needs, and to confirm this in writing.

### INSURANCE COVER BOUGHT BY SMEs, 2016-2019



Source: GlobalData's Insurance Intelligence Center