FINANCIAL CONDUCT AUTHORITY

12 Endeavour Square
London
E20 1JN

Tel: +44 (0)20 7066 1000
Fax: +44 (0)20 7066 1099
www.fca.org.uk

May 2025 update:
This letter is historical. See our supervisory correspondence page for more information and current views.

4 September 2020

Dear CEO

FCA Supervision Strategy for Personal and Commercial Lines Insurance Intermediaries

We are writing to you to set out our view of the key risks Personal and Commercial Lines insurance intermediaries could pose to their consumers or markets. Please consider the extent of these risks in your business and assess if your strategies reduce the risks.

Your portfolio

As part of our Approach to Supervision we have grouped all the firms we supervise into different 'portfolios', which are based on their business models. Your firm is in the Personal and Commercial Lines Insurance Intermediaries portfolio.

We are developing a series of supervisory strategies for each portfolio which allow us to monitor all firms effectively, and target those firms that pose the greatest risk of harm. We will be proactively monitoring indicators which seek to identify firms that pose a higher risk in each area of harm outlined, and expect to undertake additional testing of these risks with these outlier firms. Where we conclude that firms, and/or individuals are not meeting our expectations, we will act.

The supervision strategy in this letter covers the period to September 2021.

Who this letter applies to

This letter is for firms in the Personal and Commercial Lines Insurance Intermediaries portfolio. This includes:

- General Insurance intermediaries serving retail and/or commercial customers
- Loss Assessors and firms for which broking of insurance products is ancillary to their primary business

What we expect

Our view of the General Insurance sector overall is that there are significant risks of potential harm that both the market and individual firms need to address. We have identified that the most significant risk of potential and actual harm in the portfolio is through customers buying unsuitable or poor value products. We believe that insufficient or unclear information at point of sale and inappropriate sales tactics to be the biggest contributors to this harm.

Robust governance and controls are essential to ensure good outcomes for customers, but they are not, by themselves, enough to prevent harm from occurring. Healthy cultures and behaviours must be embedded throughout organisations to prevent the control environment being undermined. Improvements in firm's cultures, governance and oversight arrangements will ultimately drive the change that we require from this market.

Covid-19, firm resilience and orderly wind-down

We recognise the significant challenges that many firms have faced, and continue to face, because of the disruption from the Covid-19 pandemic. We know that many firms have had to use the Government's Job Retention Scheme and to operate very differently, with most or all staff working from home, with the resulting challenges this causes many people. Despite these challenges, we have seen some excellent examples of firms going the extra mile to help customers who find themselves in difficulty. We believe those firms that have put their customers at the heart of their business model will prosper and emerge from the crisis in a positive position.

We also recognise that other firms have struggled due to a lack of critical mass, limited access to capital or a business model that has been unable to absorb the significant shock to the UK's economy. As a result, there is a risk that a number of firms in the portfolio may fail. On 17 April 2020, we updated our guidance on 'FCA expectations on financial resilience for FCA solo-regulated firms' that we first published on our website on 26 March 2020. To re-emphasise the key messages in our publications:

- During this time of stress, we expect firms to plan ahead and ensure the sound management of their financial resources. This means taking appropriate steps to conserve capital, and to plan for how to meet potential demands on liquidity.

- If a firm needs to exit the market, it should plan ahead and consider how it can achieve this in an orderly way while taking steps to reduce the harm to both consumers and markets. Firms should maintain an up-to-date wind-down plan that takes into consideration the current market impact of Covid-19.

- If a firm is concerned it will be unable to meet its capital requirements, its debts as they fall due, or if its wind-down plan has identified material execution risks, it should contact the FCA (or its named FCA supervisor), with its plan for the immediate period ahead.

In a wind-down situation, it is essential that firms continue to meet our Rules and Principles, including those on Customers' Interests (Principle 6), Communication with clients (Principle 7), Clients' assets (Principle 10) and Relations with regulators (Principle 11). Firms' arrangements for the orderly continued provision of service to their customers are of paramount importance, whether through transferring customers to another regulated firm or by arranging for ongoing, routine servicing and renewal of policies to be handled by another party in the distribution chain, such as the underlying insurer itself.

Our view of the key drivers of harm

Firms in this portfolio vary significantly in their size, type of business and products. Their means of distribution, and role in the distribution chain, also varies considerably. Despite this, we have identified common themes in the drivers of harm against which we will prioritise our supervisory work:

- ineffective governance and oversight of businesses
- incentive arrangements that do not support a positive conduct culture
- business models which provide poor control over sales and renewals and conflicts of interest including through Appointed Representatives

Governance and oversight

Many of the key harms we have seen in this portfolio are directly linked to poor governance and controls.

Good governance is central to the effective running of any financial institution. Some critical components of good governance include:

- clear accountabilities for activities which affect outcomes, with appropriate channels of escalation
- a robust risk framework which identifies key risks of harm, monitored and mitigated by accountable individuals
- strong and independent Board oversight and challenge

The Senior Managers & Certification Regime (SM&CR) aims to reduce harm to consumers and strengthen market integrity, by creating clear accountabilities and standards for individual behaviour. It requires firms to be clear on individual responsibilities of senior managers and requires those senior managers to take responsibility not just for their own actions but for what happens in their areas of responsibilities. From its introduction on 9 December 2019, the SM&CR provides a unique opportunity to set a new standard of personal conduct for everyone working in financial services.

In due course, we will assess how firms have implemented and embedded the SM&CR. We will review how firms have identified, assigned and documented Senior Managers' responsibilities. We will hold senior managers accountable for delivering on their responsibilities and being active in setting a healthy culture in the firm. We recognise that issues will always occur, even in the best-run firms, and expect senior managers to both take reasonable steps to prevent issues and potential harm and also to act quickly and effectively to address and remediate when things go wrong. We will consider taking robust action for longstanding issues that firms do not resolve.

Firms now have until 31 March 2021 to ensure all staff in Certified roles are fit and proper to perform them. Your firm must identify a Senior Manager as having individual responsibility for ensuring your firm carries out proper assessments of Certified staff. Those who do not meet fit and proper standards cannot be certified. We expect firms to have a rigorous and robust process and some staff might not meet these standards. We will be monitoring processes and outcomes and engaging robustly with firms and the relevant Senior Managers.

Incentive arrangements that do not support a healthy conduct culture

We have seen examples of poor incentive arrangements that drive behaviours that harm consumers. We have seen these at various operational levels within firms, from sales agents to senior management responsible for customer outcomes and regulatory compliance.

We have found this is often caused by incentive structures which focus primarily on financial metrics, without taking broader factors into account. We have already assessed some firms' remuneration policies and individuals' remuneration to ensure practices reinforce a healthy culture and do not drive the wrong behaviours. Where appropriate, we will continue to do this. Meanwhile, we expect firms to consider if their incentive schemes increase the risk of mis-selling, to review whether their governance and controls are adequate to reduce or remove such risks, and, where this is not possible, to take action to amend their schemes.

We also draw firms' attention to SYSC 19F.2 IDD, remuneration incentives relating to insurance distributors, which followed the implementation of the Insurance Distribution Directive in October 2018.

Business Models - General insurance (GI) distribution chain

The UK implementation of the IDD in October 2018 sought to deliver clear, fair outcomes for consumers. It focuses on customers being better informed and firms providing products which meet customers' needs. We expect all firms to have implemented and embedded the requirements. However, we have seen evidence of business models in this portfolio which employ elongated distribution chains, and poor product oversight both in design and execution. This could result in poor value products being distributed and cause direct customer harm.

We have also seen firms selling products in ways which may lead to customer harm. This includes breaches of ICOBS and, for those firms involved in credit lending or credit broking, CONC. Examples include firms not providing customers with the required information about the product - including credit agreements - and the firm's services, and not undertaking appropriate demands and needs analysis. This could lead to a greater risk of harm if the customer is vulnerable. We expect firms to have adequate systems and controls in place to meet all relevant conduct requirements. For example, to ensure only products that meet their customers' demands and needs are sold.

We will continue our thematic work on IDD and GI distribution chains. We expect all firms to work to address poor value products being sold to customers, including the concerns identified in our thematic report (TR19/2). We expect all firms to have robust controls for sales and renewals arrangements, managing conflicts of interest and overseeing Appointed Representatives.

Our Finalised Guidance (FG 19/5) published in November 2019, gives more clarity on our expectations of how firms should consider product value to the end customer and the impact of the distribution arrangement on product value.

Business Interruption (BI)

We are seeking legal clarity on business interruption (BI) insurance during the coronavirus crisis which aims to resolve the contractual uncertainty around the validity of many BI claims.

Where firms serve BI insurance customers, they may experience further increased policyholder contact following the outcome of the court case. We expect intermediaries to continue to consider how they can meet policyholders' information needs about the test case. We have published guidance setting out this and other expectations for insurers and insurance intermediaries when handling claims and complaints for business interruption policies during the test case brought by the FCA, which we expect firms to be familiar with.

Further information can be found on our website at: https://www.fca.org.uk/firms/business-interruption-insurance.

EU Withdrawal

The UK left the EU with a Withdrawal Agreement on 31 January 2020 and entered an implementation period, during which it will negotiate its future relationship with the EU. The implementation period is due to operate until 31 December 2020. During this time, EU law will continue to apply in the UK and passporting will continue. As matters develop during the course of this year, you will need to consider how the end of the implementation period will affect you and your customers, and what action you may need to take to be ready for 1 January 2021. For information on Brexit, including what the implementation period means, visit our website at https://www.fca.org.uk/brexit.

Next steps

We will actively engage with a number of firms during the cycle to help us to complete our key priorities.

We will write to you again in 2021 to provide our updated view of the key risks firms in this portfolio pose, the extent to which these risks are being mitigated, and our updated supervisory plans as a result.

If you have any questions please contact your normal supervisory contact or call us on 0300 500 0597. This is the primary point of contact for your firm's day-to-day interactions with the FCA. Further details of how we can be reached are available on our website at https://www.fca.org.uk/contact.

However, we know there may be occasions when your firm faces urgent issues of strategic importance. In such significant circumstance, please contact me on 02070665900 or at Roma.Pearson@fca.org.uk. If I am not available, then please contact one of my managers, Nicola Denton, on 02070660206 or at Nicola.Denton@fca.org.uk.

Yours sincerely

Roma Pearson
Head of Department
Retail General Insurance