

## Regulator Assessment: Qualifying Regulatory Provisions

**Title of proposal:** Thematic Review: Delegated authority: Outsourcing in the general insurance market (TR15/7)

**Lead regulator:** FCA

**Date of assessment:** March 2017

**Commencement date:** 2 June 2015

**Origin:** Domestic

**Does this include implementation of a Cutting Red Tape review?** No

**Which areas of the UK will be affected?** Whole of UK

### **Brief outline of proposed new or amended regulatory activity**

This report sets out the findings from our thematic review that looked at delegated authority arrangements in the general insurance market. The review focused on concerns over firms' oversight of outsourced arrangements and the potential impacts any shortcomings could have upon the delivery of products and related services to customers.

The review was intended to assess the standard of compliance with regulatory requirements that had been in place a considerable period of time, in relation to:

- the outsourcing arrangements of 12 insurers representing a broad range of firms operating in the UK general insurance market
- the activities of 19 firms that held underwriting and/or claims handling authority from those insurers.

The review did not set new standards by introducing new or additional rules or guidance for firms. However, the report did provide additional information about the interpretation and effect of existing rules and guidance in so far as it made clear to firms that that the external delegation of underwriting authority and other significant functions such as claims handling is by definition outsourcing, and therefore subject to the relevant rules and guidance set out in the Handbook, specifically Management Arrangements, Systems and Controls (SYSC).

### **Which type of business will be affected? How many are estimated to be affected?**

The firms primarily affected by this thematic review and needing to familiarise themselves with its contents and assess their own position are general insurers delegating authority to insurance intermediaries and other third parties and insurance intermediaries participating in such arrangements. For the purpose of this assessment we have assumed that this includes all UK general insurers (400), including those operating on a Passporting basis and all FCA regulated general insurance intermediaries (5,200).

Price base year	Implementation date	Duration of policy (years)	Business Net Present Value	Net cost to business (EANDCB)	BIT score
2015	02/06/15	10	-0.77	0.1	0.5

**Please set out the impact to business clearly with a breakdown of costs and benefits**

Note: For all cost estimates below we have assumed the changes will be applied by experienced compliance staff at an estimated rate of £48/hour. The 2016 Robert Half salary guide estimates that a compliance manager in the risk and compliance function of a financial services company based in London earns between £70,000 and £104,000 per annum. Based on working 8 hours per day for 260 days each year our rate equates to £100,000 per annum and is therefore considered a suitably prudent figure for the purposes of our estimates.

**Familiarisation costs**

We expect all affected firms operating in the general insurance sector to read the report to determine if they are compliant with regulatory requirements as set out in TR 15/7.

The report contains approximately 14,725 words which, at a reading speed of 100 words per minute would take 2.5 hours to read. It is reasonable to assume that 3 people in each general insurance firm and one in each intermediary/managing general agent (MGA) will need to read the report. We therefore estimate the total familiarisation costs as (400 firms x 7.5) plus (5,200 firms x 2.5) x £48 = £768,000.

**Therefore we estimate the total familiarisation and gap analysis costs as £3,840,000.**

**Remediation costs**

The review assessed firms against our existing rules and guidance (as detailed in pages 7-11 of the thematic report ) and therefore any costs imposed on firms will be to bring them to a compliant standard.

We acknowledge that there will be incremental one-off and on-going costs to some firms who were not already complying with or were only partially compliant with relevant rules and guidance specifically in relation to and as set out in SYSC, following the clarification provided that external delegation of functions is by definition outsourcing. During the time of the review we did not collect data for such costs, and as this is a retrospective impact assessment it would be disproportionate to collect such data now.

As compliance with previously existing rules does not form part of the impacts assessed under the Enterprise Act, to avoid double-counting with the assessment of the impacts of these rules when they are issued, any such incremental costs would be excluded from this assessment.

**Please provide any additional information (if required) that may assist the RPC to validate the BIT Score.**

Link to Thematic Review:

<https://www.fca.org.uk/publication/thematic-reviews/tr15-07.pdf>

Link to Robert Half salary centre

<https://www.roberthalf.co.uk/news-insights/salary-centre-2016>