Wholesale Insurance Broker Market Study
Terms of Reference

Market Study
MS17/2.1

November 2017

How to respond

We are asking for comments on this report by 19 January 2018

You can send them to:

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How to navigate this document onscreen

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1 Summary

Introduction

1.1 The FCA Mission states that we want to ensure that wholesale markets demonstrate transparency, open access, integrity and competition on merits. This includes the London Insurance Market which is one of the biggest global centres for placing and underwriting large-scale, complex commercial and specialty risk, controlling more than $91bn in gross written premium (GWP) in 2015.[1] It is almost exclusively intermediated, with brokers placing the risks that are written by UK and international insurance companies and Lloyd's syndicates. These risks come from the UK and overseas and include:

- Large, complex or specialist risks which require bespoke pricing or coverage, or capacity which is not available from local national markets. Examples of this are a global airline wishing to insure a fleet of aircraft, a national contractor insuring significant construction projects or a specialist component manufacturer seeking bespoke product liability cover.
- Portfolios of individual client and Small and Medium-sized Enterprise (SME) insurance, such as Surplus Lines business from the USA (policies which protect against risk which is too high, or unusual, for standard insurance companies to take on, which are typically pooled together and placed as blocks of business.[2])
- Reinsurance, both treaty and facultative.[3] Facultative reinsurance is often an integral part of the placement of a large single insurance risk, with London insurers ceding certain exposures they do not want to retain.

1.2 The risks that brokers place in the London Insurance Market may be those of their own clients (both in the UK or through international groups or networks) or for third- party brokers (predominantly overseas, but also in the UK).

1.3 The London broker's role is to make sure that their clients obtain appropriate coverage for their needs, at a price that represents value for money. Competition between brokers can enable clients to access coverage which best meets their needs, not only in terms of price but in respect of other important factors such as breadth of coverage, financial limits of policies, the insurer's claims handling and its financial strength, and the insurer's risk management services.

1.4 The wholesale insurance broker sector was last examined in detail around 10 years ago (by our predecessor, the Financial Services Authority (FSA)) and since then there have been significant changes. A prolonged soft[4] market, with declining premium rates, has

1 London Matters (2017), The competitive position of the London Insurance Market https://www.londonmarketgroup.co.uk/lm-2017
2 This may either be through a binding authority granted to a retail broker, or as the capacity provided to a managing general agent (MGA) - a specialised type of broker which has been assigned authority to underwrite on behalf of an insurer.
3 Treaty reinsurance is the reinsurance of an insurer's whole portfolio of risk or exposures – such as to storm or earthquake. Facultative reinsurance is the reinsurance of single risks, or part of a single risk.
4 See paragraph 2.34 for more on this. Also, for example – 'Global insurance rates decline for 18 consecutive quarters' www.marsh.com/uk/insights/research/global-insurance-market-index-q2-2017.html

put pressure on brokers' earnings from commission set as a percentage of premiums. Potentially in response, brokers have developed a range of new and additional services, both for clients and insurers. These include data and analysis services (for insurers), product and programme design and new approaches to market selection and placement (including the development of facilities).[5]

1.5 These new products and services can deliver efficiencies and additional remuneration, provide information to insurers looking to access new markets or sectors and give access to new or enhanced products for clients. However, the number of facilities offered in the London Market has increased over recent years, as has the number of data services. Many stakeholders have raised concerns about how this could give rise to a range of competition issues. For example, larger brokers may be using their market power to oblige insurers to sign up to these facilities or pay for wider services. Also, there may be additional incentives for brokers to place business in facilities even where it may not be the best option for their clients since, in many cases, they receive enhanced remuneration for doing so. Ultimately, that may have the effect of limiting the number of insurers underwriting business in a particular sector or impact on the selection process, putting end clients at a disadvantage.

1.6 As described above, the wholesale insurance sector is very large and, given its size and the type of large scale risks it covers, the way it functions can have a wide-ranging impact on the broader economy. For example, if businesses fail to get the most appropriate cover or pay more for risk services than they should, it can have a significant impact on their ability to operate, innovate and grow. Effective competition is important in this sector since even modest improvements in its efficiency could significantly benefit the economy as a whole.

1.7 Stakeholders have raised concerns that competition may not be working effectively in this important sector. We therefore believe it is an appropriate time to explore how competition is working and whether it could be made to work better in the interests of clients. For these reasons, we intend to undertake an investigation into the dynamics of the wholesale insurance broker sector. We announced our intention to conduct a market study in the FCA's Business Plan for 2017/2018.[6]

1.8 The views set out in this Terms of Reference are based on our initial exploratory work and reflect the areas we would like to examine in further detail, rather than our final views.

Scope of the study

1.9 We plan to assess how effectively competition is working in the wholesale insurance broker sector, as well as how brokers influence competition in the underwriting sector. We want to make sure that the wholesale insurance industry allows innovation and competition in the interests of its clients. Brokers potentially play an important role in ensuring their clients get appropriate coverage at good value. Competitive pressure should keep brokers' remuneration levels to a competitive level, reducing costs in the supply of wholesale insurance. In a sector where competition between brokers is effective, clients should be able to access the best terms available and firms' practices

5 See paragraphs 2.29-2.31 for more on facilities.
6 www.fca.org.uk/publication/business-plans/business-plan-2017-18.pdf

should not create risks to market integrity and conduct. In the course of the market study, we will consider the extent to which purchasers are able to receive the benefits of healthy competition.

Topics we will cover

1.10 Our study will explore three main topics to assess whether competition in the wholesale insurance broker sector works in the interests of clients:

Topic 1 – Market power
We will examine whether individual broker firms have market power and, if so, what impact this has on competition. By market power we mean firms having the ability to raise the prices of their services beyond normal competitive levels. We will explore how easy it is for firms to enter the industry or expand their businesses, as the threat of new rival firms offering lower prices may constrain existing players from exercising the market power they might have. We will also look at whether there are sub-segments within the sector with fewer active players and if the intensity of competition varies across those segments.

Topic 2 – Conflicts of interest
We will look at the conflicts in the sector and how they affect competition and client outcomes. When brokers select placement options for their clients, there may be incentives to choose the insurer or product which provides them with the highest remuneration, rather than the insurer which best meets the clients' needs. There may be other features where conflicts of interest arise and that need to be managed. These include possibilities that brokers look to place business within facilities which earn high commissions which may not always be in the best interest of clients. We will consider whether certain business practices may make this worse. For example, these practices could include channeling business to in-house underwriting services to keep more premium revenue within the group, or placing risks with insurers that purchase additional services from the broker.

Topic 3 – Broker conduct
We will examine how certain broker practices have an impact on competition in the industry. We are interested in how some activities may exclude insurers, for example by placing risks through facilities rather than in the open market. When this happens brokers may be excluding certain types of insurers – often smaller firms – from some business and this may harm competition. We will also consider whether there is any evidence of coordination between firms, potentially through an implicit understanding rather than a formal agreement.

Next steps

1.11 We are not formally consulting on the Terms of Reference, however, we welcome feedback on the topics we plan to explore. We have included some questions for respondents to consider within this document. Please send your views to WholesaleInsuranceBrokersMarketStudy@fca.org.uk by Friday 19 January 2018.

1.12 We will soon start gathering information from stakeholders. This includes data and other forms of information from insurers, brokers and the purchasers of insurance policies sold in this industry. We will also speak to stakeholders, to hear their views on the topics set out in this document. This will be done through individual meetings with stakeholders as well as a roundtable event and market research with purchasers. We aim to publish an interim report in autumn 2018, with our analysis and preliminary conclusions including, where practicable and appropriate, possible remedies to address any concerns identified. We will carefully consider responses to this interim report and incorporate the feedback into our final report.

1.13 If we find that competition is not working, we may intervene to improve outcomes for clients. We can do this in several ways, including rule-making, publishing general guidance, proposing better self-regulation for the industry or introducing firm-specific remedies or enforcement action (under Financial Services and Markets Act 2000 (FSMA) or the Competition Act 1998 (CA98)). We can also remove existing rules that create disproportionate barriers to entry, expansion or innovation and refer issues to the Competition and Markets Authority (CMA) for further investigation – this is known as a market investigation reference.

1.14 We may also decide to take no further action. This could be because we do not identify any concerns that can be proportionately addressed by regulatory intervention, or that anything we find is likely to be addressed by upcoming legislative measures, or action by the relevant firms. If this happens we may continue to monitor the sector in case our concerns are not addressed.

1.15 For more information on our market study powers and procedures please see our market studies and market investigation references guidance.[7]

7 FCA 15/9 Market studies and market investigation references: a guide to the FCA's powers and procedures www.fca.org.uk/publication/finalised-guidance/fg15-09.pdf

2 Overview of the sector

2.1 In this section we set out a brief overview of our understanding of the wholesale insurance broker sector and how it operates.

2.2 The wholesale insurance sector caters for large, complex or specialist risks that usually require an element of bespoke pricing and coverage. They may be more difficult or complicated to insure and are often placed with Lloyd's syndicates and insurance companies operating in the London Insurance Market.

London Insurance Market

2.3 The London Insurance Market is one of the world's leading insurance sectors for complex and specialist risks, controlling more than $91bn in GWP in 2015.[8] Of this, $67bn was business written in London and $24bn marketed through, but not written, in London.[9]

2.4 The London Insurance Market is predominantly comprised of Lloyd's of London and the Company Market:

- **Lloyd's of London** is best known for providing insurance for complex and specialist risks and attracts business from across the world. It is a marketplace where members – both corporate and individual – join together as 'syndicates' to insure risks.

- **Company Market** is formed of a number of different insurance and reinsurance companies. In 2015, 60% of 'core'[10] London Insurance Market premiums were underwritten at Lloyds of London and 36% were underwritten by the Company Market.[11] The remaining 4% was written by Protection and Indemnity Insurance Clubs (P&I Clubs).[12]

2.5 For lines of business such as aviation or marine, underwriting is highly specialised. London has a reputation for the breadth and depth of its underwriting expertise, and the ability to respond quickly and flexibly to emerging risks. The concentration of sector participants within the City of London means that, historically, interaction between parties in the supply chain has been quick and efficient.

8 London Matters (2017), The competitive position of the London Insurance Market www.londonmarketgroup.co.uk/lm-2017

9 We understand that this can occur when a significant proportion of the underlying analysis and administration involved in insuring a risk is undertaken by insurers based in London but the contract is signed elsewhere.

10 Defined in London Matters (2017) as London Insurance Market specialty commercial insurance and reinsurance business backed by London capital.

11 Page 15 London Matters (2017) www.londonmarketgroup.co.uk/lm-2017. Page 17 of London Company Market Statistics report (October 2017), International Underwriting Association reports broadly similar shares with approximately 57% Lloyd's of London GWP income and 43% London Company Market. www.iua.co.uk/IUA_Member/Publications/London_Company_Market_Statistics_Report.aspx

12 P&I Clubs are mutual insurance associations which allow their members to pool risks. They operate for the benefit of their members (rather than shareholders) and aim only to obtain sufficient money in each year to meet costs, expenses and claims for that year.

Types of client

2.6 We have identified two broad types of end clients, based on the FCA's analysis of the market and informed by our experience of working with the industry, which we intend to focus on within the market study:

- **Retail micro-enterprises and SMEs** use a wide range of distribution channels including high street and regional brokers, telephone and internet-only brokers, price comparison websites, banks, and insurers directly. They are unlikely to deal with London Market brokers directly – other than where these brokers have separate business units for placing these risks, normally with single insurers rather than on a subscription basis. However, these risks are often pooled together by local retail brokers in other countries (notably, the USA) and ultimately placed in the London Market as large portfolios. We are, therefore, only focusing on this group where the risks are pooled together and placed into the London Market in this way.

- **Corporate clients** based in the UK and abroad are included in this segment, as well as other insurers and reinsurers (as purchasers of reinsurance). These clients have complex needs, especially where their business is global and typically access the sector via one or more brokers. Larger companies often employ specialist risk managers with responsibility for the company's insurance needs.

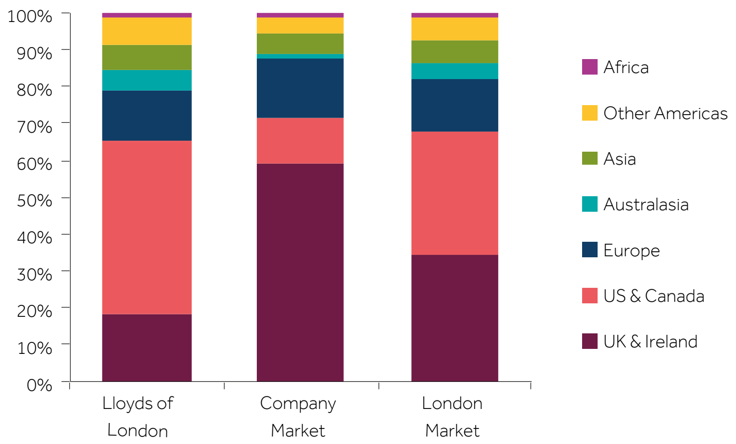
Geographic location of the end client

2.7 The London Market is a hub for large commercial and specialty risk underwriters and attracts clients from the UK and all over the world.[13] It has traditionally had a reputation for underwriting large, complex or unusual (and high severity) risks. Domestic underwriters in other countries may choose not to write or hold this type of business due to its 'non-standard' risk characteristics, or perhaps because the risk is too large and they may not have sufficient capacity to take it on.

2.8 Over time, Lloyds of London has developed overseas arrangements to write risks outside the UK and the European Economic Area (EEA). The diagram below shows that approximately two-thirds of London Insurance Market business in 2015 is represented by regions outside the UK and Ireland.

13 London Market business originating outside of the UK will include global corporations with entities based in the UK.

Figure 1: London Insurance Market Gross Written Premium by location of insured (2015)



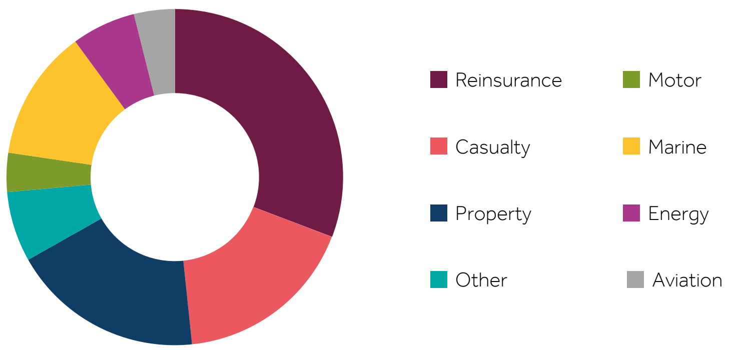
Source: FCA analysis of data in London Matters 2017[14]

Type of risk

2.9 Insurance products provide cover for policyholders against certain risks. In exchange for an agreed premium, the insurer promises to cover the policyholder for losses that occur according to a set of pre-defined circumstances. In the wholesale insurance sector the risk will often be complex and large, typically requiring bespoke pricing and coverage. Unlike retail insurance transactions – such as household car insurance – where one insurer provides cover for a risk, a number of insurers will usually join to cover a risk (especially for very large risks) or lay-off some of the risk using reinsurance.

This chart shows the types of risk covered in this sector:

Figure 2: Classes of risk covered in the London Insurance Market shown by premium (2015)



Source: FCA analysis of data in London Matters 2017[15]

14 See Figure 10, London Matters 2017 (London Market Group). www.londonmarketgroup.co.uk/lm-2017
15 See Figure 8 of London Matters 2017 (London Market Group). www.londonmarketgroup.co.uk/lm-2017

Role of the broker

2.10 Historically, the majority of wholesale insurance has been placed with the assistance of a broker. This sector has a small number of large brokers with offices and divisions across the world, and a large number of smaller players that vary significantly in size and specialty. There has been a large amount of merger and acquisition activity in the sector recently, as the industry consolidates.

2.11 Brokers advise clients on their risk management needs and place them with insurers which have the capacity, risk appetite and financial strength to underwrite the risk. The placing process is complex and multidimensional and, while price is important, clients have to consider several criteria, such as the breadth of coverage and the risk management services provided. However, importance is often placed on the insurer's reputation for claims settlement and financial strength.

2.12 Depending on the complexity, size of the risk or its location there may be more than one broker in the distribution chain, with international or regional brokers approaching London brokers to help place their clients' business in London.

2.13 There are many reasons why clients use brokers when placing risks in the London Insurance Market rather than going direct to underwriters:

- Lloyd's of London is an intermediated market and so purchasers need to use an intermediary to access it
- no one insurer may be able or willing to accept larger risks, and so a broker is required to assemble the cover from multiple insurers in the subscription market
- to obtain the broker's expert advice on their risk needs and ensure they get appropriate coverage
- to use the broker's knowledge of what is offered in specific insurance sectors and efficiently manage the placement of risks at a price that represents value

2.14 Insurers typically have less information than the end clients about the nature of the risks they face, which insurers need in order to accurately price cover. Similarly, clients know less than insurers about how insurers price risk, determine coverage and settle claims etc.[16] Brokers often build up expertise on a client's specific risks over many years, and use this knowledge to search for the best cover. It also benefits the insurer since they obtain detailed information about the client to help them to more accurately evaluate the risk and calculate an appropriate premium. Brokers can therefore play an important role in mitigating the information imbalances faced by both the client and insurer.

2.15 Brokers with long-standing insurer relationships will know which underwriters are appropriate for certain types of risk, which speeds up the placement process for clients.

2.16 Some brokers increasingly play an important role in designing insurance products, programmes and facilities for their clients, for example where the available insurer

16 Larger clients may employ risk managers who generally have high levels of knowledge and expertise.

options do not precisely meet the client's needs or where there are portfolios of similar risks which could be placed and managed, more efficiently if grouped.

An overview of distribution

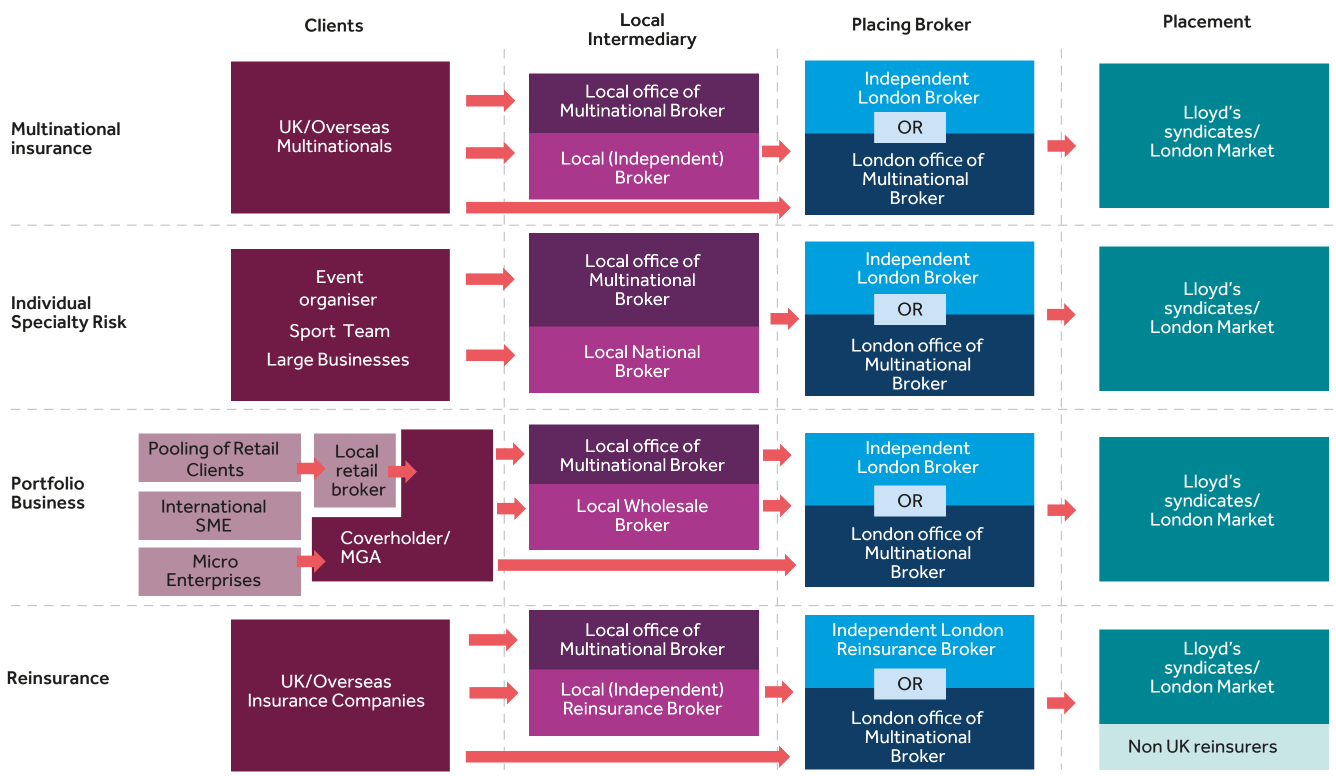
2.17 Figure 3 shows distribution in the wholesale insurance sector and illustrates the types of risk placed, the clients who buy insurance for those risks and the brokers who place it. It also shows how chains of brokers are used to place insurance policies, with one broker instructing another to help them get a quote. The client may not necessarily be aware of the length of the chain of firms involved in placing the risk.

2.18 The first column shows the four broad categories of risk business in this sector and the types of end clients who may have an insurance need:

- multinational cover – placed by the largest global brokers
- specialty insurance – specialised bespoke insurance for large and multinational businesses or unique items and risks
- portfolio business – pools of retail clients' risks, and
- reinsurance – insurance for insurance underwriters, allowing them to hedge their risks, or to lay off large risk exposures

2.19 The second and third columns show the next steps in the chain. For example, a client who approaches a local broker may find they have no insurer relationships willing to quote, so they go to a broker in a regional insurance centre. If they cannot place it then it will go to a national level broker, then international level broker, with the ultimate end of the chain being the London Market.

Figure 3: Distribution chains in the wholesale insurance broker sector



How risk is placed

2.20 The nature and size of a risk affects how it is placed in the wholesale insurance sector.

2.21 Larger risks tend to be written on a subscription market basis. In these situations the lead insurer(s) will set the price and terms but only accept a percentage of the risk. Following insurers will accept different percentages of the risk until it is fully covered , or the London order is filled. Very large risks may be placed in layers, with each policy layer having its own lead insurer.

2.22 In other classes each insurer can agree its own pricing for the percentage of the risk it is prepared to accept. This is known as 'verticalised pricing'.

2.23 With books of retail or SME business, such as Surplus Lines (see paragraph 1.1 above), the individual sums insured will be relatively low. These policies may therefore be grouped together as a portfolio of risks to find insurers with a risk appetite for this type of business.

Broker remuneration

2.24 Brokers are paid for their services in different ways. With large corporate clients, they often negotiate a fee for their services. They may in addition seek a commission from insurers which is sometimes rebated to the client. The fees payable by large corporates can extend beyond services provided by brokers in regard to the placement of their insurances, for example to manage their captive insurance company (a form of self-insurance).

2.25 Remuneration from insurers may take different forms, for example:

- standard commission, as a deduction from the gross premium
- additional commission – 'Subscription Market Brokerage' or 'Insurance Services Brokerage' – which can be charged on top of a fee or standard commission. This is characterised as a percentage (often 1 to 3%) to cover services the broker performs on behalf of, or for the benefit of, the insurer
- work transfer commission or fees where risks are routed through a Managing General Agent (MGA)[17] or where the broker has a greater level of involvement in the design and/or delivery of the insurance product (i.e. the intermediary is not acting solely as a distributor). The commission covers the underwriting activities undertaken by the MGA or broker
- facility-related commission – which may be higher than standard commission on similar business – where risks are placed into a facility. There may also be up-front fees payable by insurers to participate in certain placement facilities
- contingent commission, which depends on factors like the volume of business placed or its profitability, and
- other fees, unrelated to specific transactions, such as fees payable by insurers as part of a Strategic Agreement with the broker firm or for data analytics and associated consultancy services

2.26 Brokers may earn additional commission where they place facultative[18] reinsurance for insurers which have written a large insurance risk. The insurers may require facultative reinsurance to reduce their exposure in respect of certain risks (or certain elements of the risk). The (re)insurers that write the facultative reinsurance pay a commission to the placing broker. The brokers which place the original insurance risk may require that any facultative reinsurance the insurers buy must be placed by them, in the interests of client confidentiality.

2.27 Lloyd's of London statistics show how average acquisition costs – a rough proxy for brokerage and commissions – have developed as a proportion of GWP.[19] These acquisition costs have been rising steadily as a proportion of GWP over the last decade or so. This trend may to some extent be driven by increases in broker remuneration.

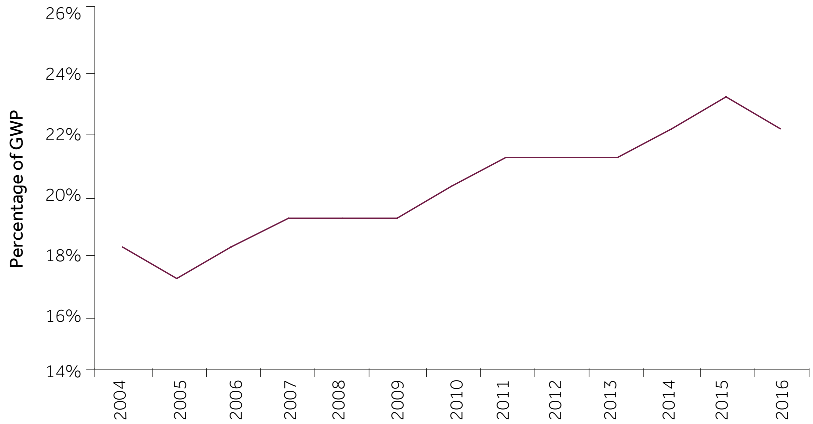
17 A specialised type of broker which has been assigned authority to underwrite on behalf of an insurer.

18 Facultative reinsurance is the reinsurance of single risks, or part of a single risk.

19 Lloyd's describes that 'in general terms acquisition costs can be defined as brokerage and commissions (including business arrangement fees), service company acquisition costs and any other expenses relating to the acquisition of business, such as internal costs or managing agents' fees.'

The following chart shows acquisition costs over recent years, for Lloyd's of London business only:

Figure 4: Lloyd's of London acquisition costs (% of GWP) (Whole market)



Source: *Lloyd's of London statistics 2017*[20]

Recent changes in the industry

2.28 There have been a number of developments in the industry over recent years which are set out below.

Facilities

2.29 Over recent years, a number of new and alternative approaches to placing business have emerged in the London Insurance Market, with significant growth in the amount of business being placed into some forms of facilities. Broadly speaking, these facilities are intended to make the placement process for insurance more efficient. The broker firms creating these facilities ask underwriters to commit capacity to write certain risks – or classes of risks – upfront and then create a placement offering designed to meet the needs of a particular sector or client group. In many cases facilities provide an enhanced level of remuneration for the broker.

2.30 Traditional types of facilities such as line slips and binding authority arrangements have existed within the sector for a long time. For example, line slips are a long-established practice where the follow insurers delegate their underwriting to a lead underwriter which has appropriate expertise. Recently, we have seen the evolution and growth of alternative facilities, created by London Insurance Market brokers which may include:

- Broad market follow facilities which take a percentage (often 10-20%) of follow capacity across a wide range of risks and classes. They involve an underwriter committing their capital in advance to underwriting on a follow basis across a wide range of business underwritten by a variety of different lead underwriters. This means that they have no discretion or visibility of the underlying risks, if the risks meet the initial broad parameters.

20 Section 8.3, Figure 221 Lloyd's statistics 2017 (A statistical guide to the Lloyd's market)

- Specialised facilities designed to provide a bespoke solution for a particular market area. These may operate on the basis that the insurer takes 100% of the risk or involve multiple insurers, and can act in a "solus" fashion (where they will be the only placement option considered by a broker for risks meeting the relevant criteria) or compete with open market offerings.

2.31 The use of these types of facilities within the London Insurance Market has become more widespread.[21] For example, one media report suggested that 20-40% of business is now placed in facilities by larger brokers, with some classes of business seeing larger proportions of business placed within facilities.[22] The aims of facilities may include creating products offering enhanced coverage which better meets clients' needs, reducing costs and increasing speed of placement. For example, a facility can reduce the need to approach a wide range of insurers for quotes, reducing the cost and time required to place it. Pre-approved, guaranteed capacity is also attractive to clients who wish to have their cover in place quickly.

Non-placement services

2.32 Brokers are increasingly using their expertise and the large amount of risk data they hold to offer different services to insurers. Larger brokers generally offer more extensive services because of the volume of data they hold, but many smaller brokers also provide such services, particularly where they have expertise in niche products or sectors. Services that might be offered to insurers include:

- advisory or consultancy services to help insurers better understand the market to maximise their ability to keep and win business, including pipeline and positioning advice to understand upcoming opportunities
- regular meetings with senior management and brokers to help develop their market understanding and strategy
- data analysis or data provision on risks
- surveys of brokers to provide feedback on the insurer and their performance, and
- administrative services, such as data management and processing

2.33 Brokers act as agents of the end client, and we understand that these services are often separate from the main broker business, either with Chinese Walls between them or in entirely separate locations, units or entities.

Drivers of sector developments

2.34 These changes may have been driven by several factors. The first are the extended soft conditions which prevail in the sector. The underwriting sector moves in cycles. During the soft part of the cycle there is excess capital in the sector and premiums tend not to increase, and may fall, which affects the revenue of those in the value chain, including

21 www.bankofengland.co.uk/pra/Documents/about/druleletter220617.pdf
22 See for example https://insuranceday.maritimeintelligence.informa.com/ID003300/The-invasion-of-the-facilities?vid=Maritime&processId=6347b39d-cd7f-4841-aaf4-5f3fc5f529fe

those depending on commissions based on the GWP.[23] Since the financial crisis of 2007-2008, the insurance industry has been through a long period of soft conditions.[24] Low global interest rates have driven capital into financial markets – including the insurance underwriting industry – in search of new sources of return and diversification of assets.

2.35 The increase in the supply of capital has put downward pressure on insurance policy premium levels. Lower premiums can reduce wholesale broker commissions and the lower revenues received from placement may have led brokers to launch new services to recover some of this lost revenue and increase efficiency.

2.36 Insurance brokers may have launched new services following an investigation by the New York Attorney General, Eliot Spitzer, in 2004. This investigation had a global impact, and stopped some brokers from receiving contingent commissions – where revenue depends on the volume or profitability of the business placed – from underwriters.[25] Technological advances may also have given brokers more scope to develop these additional services. There may also be demand-side influences. As described above, larger corporations may employ risk managers who have expertise in insurance and may use their knowledge to demand better value for money. For example, greater focus on the role of risk management within corporate governance may have led to risk services more often being put out for tender.

2.37 The combined effect of these factors may have prompted firms to launch other services to recover some of the lost revenue or increase their efficiency.

Regulatory landscape

2.38 Annex 2 summarises the regulatory framework within which UK wholesale insurance brokers operate.

Q1: Are there any important elements of sector dynamics which we have missed?

Q2: Do you have any comments or observations on the recent changes or drivers of these changes in the sector?

Q3: Do you have any observations on the impact of the changes described?

Q4: Do you have any insight/evidence on how the industry can be expected to develop in the next 5-10 years?

23 During the 'hard' part of the cycle, a reduction in the overall level of capital leads to increases in premiums and, generally, an increase in the revenues of the participants in the value chain.

24 For a discussion of the extended soft market conditions please see page 34 London Matters: The Fact Base available at www.londonmarketgroup.co.uk/library

25 However, the agreements preventing some brokers from accepting contingent commission were amended in 2010, so it may have become more prevalent.

3 Rationale, scope and powers

3.1 In this section we explain why we have decided to look into the wholesale insurance broker sector, the scope of our study and which of our legal powers we will be using.

Why we have decided to look at the sector

3.2 Our competition powers allow us to look at how markets are operating overall to see how well they are working for consumers. The principal way we do this is through market studies, which allow us to analyse the effectiveness of competition in a sector.

3.3 The wholesale insurance broker sector was last examined in detail around 10 years ago[26] (by FSA) and since then there have been significant changes. Concerns have been raised by stakeholders about industry developments that may cause competition issues.

3.4 The number of placement 'facilities' in the London Insurance Market has increased and many brokers are now offering a wider range of services to insurers, such as advisory, data and analytical services. Some stakeholders have told us that larger brokers may be using their market power to oblige insurers to sign up to these facilities or pay for these wider services.

3.5 In the previous section we set out a number of possible reasons why the industry has seen increased use of facilities and the development of additional broker services. However, these developments may ultimately have harmed competition and potentially end clients, by leading to higher broker remuneration (or lower quality of service). We want to further explore these topics and think that it is an appropriate time to pursue a market study into the wholesale insurance broker sector.

3.6 The purpose of this market study is primarily to look at how competition is working and whether it could be made to work better in the interests of end clients. It is not intended to be an assessment of firms' behaviours against competition law. However, if we do uncover breaches we will take action as appropriate.

Benefits of effective competition

3.7 Brokers can potentially play an important role in ensuring their clients get appropriate coverage at good value. In a sector where competition between brokers is effective, clients should be able to access the best terms available from the industry. This competitive pressure should keep brokers' fees and remuneration levels to a competitive level, reducing costs in the supply of wholesale insurance. Lower levels of remuneration for brokers for a given service level should ultimately be reflected in lower overall premium levels for coverage.

26 Commercial Insurance Commission Disclosure, Charles River Associates report (December 2007), commissioned by the FSA. http://www.crai.com/sites/default/files/publications/commercial-insurance-commission-disclosure.pdf

3.8 Competition between brokers is also likely to be on factors other than price, for example, their ability to organise a single global risk programme for a multinational company, or provide a claims management service to coordinate claims with a number of underwriters. We are aware that a higher quality service could lead to clients reasonably choosing to work with brokers that do not necessarily have the lowest levels of remuneration.

3.9 Through the course of the market study, we will consider the extent to which purchasers are able to receive the benefits of healthy competition between brokers.

Scope of this market study

3.10 The focus of this market study is the wholesale insurance broker sector, which we have described at a high level in section 2. From our early engagement work, it is clear that different stakeholders define the wholesale insurance sector in different ways. Some may define it as client risks coming to them via other brokers, for example brokers in other countries, rather than directly from the insured client.

3.11 For the purposes of this Terms of Reference, we are defining wholesale insurance broadly. We intend to include risk business, from overseas and the UK, placed by brokers with Lloyd's syndicates and insurance companies operating in the London Insurance Market. Our market study will examine large, complex or specialist risks that usually require an element of bespoke pricing and coverage. This will focus on cover purchased by large corporate clients based in the UK and abroad. We expect to exclude business of SMEs and smaller (non-global or local) corporates, apart from portfolios pooled together and placed in blocks in the London Insurance Market (for example Surplus Lines).

3.12 With respect to reinsurance, there are two main types of business:

- **facultative reinsurance** which hedges a single policy or specific set of policies written by an insurer
- **treaty reinsurance** which hedges the total exposures in a book of an insurer's business (this can be class specific or whole account)

3.13 Facultative reinsurance involves the cover of individual, specific risks and we think there are features in this sub-sector which may be similar to those identified in the primary sector. We therefore propose to include reinsurance in our analysis at this stage. However, we recognise the potential differences in the way competition in the two sub sectors – facultative and treaty – may operate and so will focus on the areas where the issues arise.

> **Q5:** **Do you consider that the scope is appropriate to assess whether competition is working well? If not, please explain why.**

The powers and procedures we will use to conduct the study

3.14 As noted in our market study guidance,[27] we may carry out market studies either under FSMA powers or under our concurrent competition powers set out in the Enterprise Act 2002 (EA02). We can choose which procedure to follow, and decide on a case-by-case basis. We can also switch between our FSMA and EA02 powers when conducting market studies, if necessary.

3.15 We have decided to conduct this market study using our FSMA powers. Our procedures for market studies are set out in detail in our market study guidance but are also summarised below.

3.16 We will soon start gathering information from stakeholders. This will include data, information or views from brokers, insurers and their clients. We will also engage with stakeholders to hear their views on the topics set out in this document.

3.17 We aim to publish an interim report setting out our analysis, preliminary conclusions and, where practicable and appropriate, proposed solutions to address any concerns identified in autumn 2018. This will provide stakeholders with an opportunity to comment before the publication of our final report.

3.18 If we conclude that competition is not working well and there is a need to take action, we may intervene to promote effective competition using a number of measures including:

- market wide remedies, for example:
  - rule-making, including changing or potentially withdrawing existing rules or publishing general guidance
  - proposing enhanced industry self-regulation
- firm-specific remedies, which includes using own initiative variation powers or own initiative requirement powers, cancelling permissions, public censure, imposing financial penalties, as well as filing for injunction or restitution orders
- where we identify potential infringements of other laws, such as competition law, we may open an investigation or refer the matter to other enforcement agencies, and
- making a market investigation reference to the CMA

3.19 Alternatively, we may decide to take no further action. This could be because we conclude that there are no significant competition issues, or perhaps any issues identified are likely to be satisfied by upcoming legislative measures, action by the relevant firms or other circumstances. We would continue to monitor the sector in case our concerns are not addressed.

27 FCA 15/9 Market studies and market investigation references: a guide to the FCA's powers and procedures www.fca.org.uk/publication/finalised-guidance/fg15-09.pdf

4 Topics to be explored

4.1 In this section we set out how we intend to examine the sector and the areas we plan to focus on in the course of assessing competition.

How competition is working within the sector

4.2 We will look to understand how competition works within the sector, including how firms compete and if it differs between different types of clients, risk and location, examining:

- **Sub-segments**. Our engagement with stakeholders suggests that the intensity of competition may differ between sub-segments of the industry. These could be defined by combinations of at least three factors: type of risk, geographical location of the end client, and type of end client. We will explore whether there is evidence that competitive conditions differ by sub-segment.
- **Parameters of competition**. We will look to understand the extent to which brokers compete with each other on price and non-price factors. We recognise that focusing only on price may misrepresent the nature of competition in the industry, and we will examine the evidence on competition across a wide range of parameters.

Topics to be explored

4.3 In the following sections, we set out the three main topics which we intend to explore in the market study. These are:

- **Topic 1**: Market power – do individual broker firms possess market power and if so is this harming competition?
- **Topic 2**: Conflicts of interest – what conflicts exist in the sector and what is their effect on competition and firm conduct?
- **Topic 3**: Broker conduct – to what extent does this affect competition in the broker sector? Could some actions risk excluding firms from the underwriting sector?

Topic 1 – Broker market power

4.4 Some stakeholders have raised concerns that some brokers possess market power, which they may be able to use to restrict competition. For example, market power could result in brokers receiving higher commissions than would otherwise exist in a competitive market.

4.5 We have heard a range of concerns from stakeholders. For example, several have told us that some broker firms may have used their market power to get underwriters to sign up to facilities and pay for additional (and potentially unnecessary) services, or to seek enhanced commission that is out of proportion with the benefit received.

Assessing market power

4.6 The wholesale insurance sector might be segmented in various ways, according to, for example, client type, type of risk, and client location. As part of our assessment we will consider whether there is evidence of such sub-segments, and if so, whether the intensity of competition differs between them.

4.7 According to the previous FSA study, the market share of the largest four international intermediaries varied between 45% and 85% depending on the size of the client. Given the potential for further sub-markets within the industry, these levels of concentration could be significantly higher for some segments. We will investigate how concentrated the sector is within different segments at present to see how this has changed over time.

4.8 We will explore pricing and margin trends by segment. This analysis will focus on examining whether there is evidence of ineffective competition in certain sub-segments.

Barriers to entry and expansion

4.9 Sometimes, even in markets with high levels of concentration, brokers may not possess market power due to the ability of rivals to enter or expand if profits rise above competitive levels. We will also assess the extent to which firms can enter the market or expand their business.

4.10 Some factors we will explore include:

- **Lack of switching by clients**. The previous FSA study suggested that switching rates among brokers was probably lower than 10% per year. This could suggest that switching costs are high or other barriers exist, so brokers may not face sufficient competitive pressure. However, it could be that switching costs are low, but clients are typically satisfied with their service from brokers. We aim to explore this area as part of the market study.

- **Expertise, capability and information**. We have heard that these are important in giving a specific broker a competitive advantage. Examples include a broker's specialised risk engineering capabilities or their ability to assess clients' highly complex risk needs. We are also aware that a number of larger brokers have been developing data services over the last five years. However, the concentration of knowledge in the hands of a small number of brokers may be making it difficult for any new brokers to enter the sector, or any small brokers to expand.

- **Regulation**. There may be regulations which make it more costly for firms to enter the sector. If so, we will consider how the benefits of the regulation weigh against the impact on competition, and whether a better balance could be achieved.

- **Economies of scale and scope**. These arise where a firm's cost per unit falls as its output increases and where it is cheaper to produce a range of products rather than specialise in one or two. While these can provide benefits to clients through lower pricing, if the cost of providing services is significantly lower for larger firms than smaller ones, this can make entry or expansion in the sector difficult.

Topic 2 – Conflicts of interest

4.11 As described in Chapter 3, commercial clients and insurers will use brokers to bridge the information gaps – known as asymmetric information – that exist in the value chain. However, this reliance on brokers may make conflict of interest problems worse.

4.12 When brokers choose insurers for their clients – or put together a facility – there may be incentives to choose the insurer which provides them with the highest remuneration, instead of the most appropriate insurer for the client in terms of service, quality of cover, and the premium charged. Stakeholders have suggested that brokers may direct clients towards guaranteed underwriting facilities since these provide the broker with higher remuneration, or towards insurers that pay contingent commissions – where revenue is contingent on specified events, such as the profitability of the business, rather than policy sale – and this may generate a higher amount of remuneration. This practice can occur because of lack of transparency and asymmetric information between the client and broker regarding remuneration, although the degree of asymmetric information is likely to be lower where clients employ specialist risk managers.

4.13 We think there may be potential for conflicts of interest to arise within the following areas:

- **Facilities**. We will consider if there is evidence that brokers are placing business within facilities, which may yield greater remuneration to the broker, even if these are not in the best interests of their clients. We will also consider if pay-to-play agreements exist (see paragraph 4.22) and how they may exacerbate potential conflicts of interest.

- **Leveraging data and other advisory services**. We will consider the extent to which brokers are more likely to place underwriting business with insurers that purchase data and other advisory services from the broker (see paragraphs 2.32-2.33 for further detail on these services). We will also look at how brokers may not be serving the interests of their clients effectively if they withhold information and opportunities from insurers which do not pay for their services, including, for example, whether pipeline services reduce the ability of non-participating insurers to prepare effective bids for business.

- **Tying of reinsurance**. Some stakeholders have raised concern that, in order to place a risk with an insurer, some brokers may insist on any reinsurance from that insurer being placed with the same broker. Whilst we understand there is a potential confidentiality issue with reinsurance being placed through alternative brokers (due to the need to share the client's data with new entities) we will consider the extent to which this tying is leading to placements outside of the client's best interests.

- **Broker-owned Managing General Agents (MGAs)**. MGAs may benefit insurers because their specific expertise may not be available within the insurer or could be expensive to develop. They can be either independent/standalone or a subsidiary of a brokerage. However, there may be conflict of interest risks in cases of MGAs owned by brokers as the parent broker may also be acting as a broker for the client. There is potential for business to be channeled to their in-house underwriting facilities to retain a greater share of the premium revenue on risks they place.

4.14 Furthermore, brokers may sometimes be remunerated by both the client and the insurer on a specific risk and this may create further potential conflicts of interest. We will assess the extent to which this appears to be the case and the mechanisms in place to manage these conflicts and protect clients.

Topic 3 – Broker conduct

4.15 We are interested in exploring the extent to which certain broker practices may be affecting competition by potentially:

- excluding some insurers, or
- dampening competition between brokers through 'tacit' coordination

Exclusion of insurers

4.16 Some stakeholders have commented that brokers have tried to earn extra revenue and profits by launching new services. For example, some brokers have taken on elements of the insurer role – such as via MGAs[28] or Binding Authorities[29] – or tried to commoditise the process of placement by operating different facilities (for which they may charge higher commissions) or use the information they hold to charge insurers for data analytics and associated consultancy services.

4.17 Some of these changes, such as the placement of risks through facilities, could benefit clients by speeding up the process, and reduce costs for both insurers and brokers. We consider that these types of placement also have the potential to affect how competition is working within the sector.[30] By placing risks through a facility rather than in the open market, brokers may be excluding certain types of insurers from some business. This loss of business may lead to some underwriters exiting the industry which could harm competition in the underwriting sector. For example, if the firms that exit have been close competitors to the remaining firms, the intensity of competition may fall, and if firms that exit the industry specialised in certain underwriting segments, this expertise could be lost. These hypothetical concerns may not affect the broker sector directly, but they could affect the pricing or quality of underwriting services and indirectly harm clients.

4.18 In theory, there is a risk that the prevalence of guaranteed placement facilities – where insurers commit to cover a percentage of risks within a particular sector – could lead to smaller insurers exiting the industry. This is because the pre-arranged nature and scale of these facilities may create pressure on insurers to either sign up to a facility,

28 Managing general agents, unlike traditional agents/brokers, are vested with underwriting authority from an insurer. Accordingly, MGAs perform certain functions ordinarily handled only by insurers, such as binding coverage, underwriting and pricing, appointing retail agents within a particular area, and settling claims.

29 Under a binding authority the insurer mandates the holder of the authority to perform certain functions for and on behalf of the insurer in connection with the administration of insurance policies.

30 A further potential issue which may arise with guaranteed placement facilities is that insurers may have little or no control of the risks they are taking on. This means that insurers may take on more risk than they would desire, leading to unexpectedly lower returns, or they may end up underwriting more business than they can profitably afford. This is likely to raise questions about how the insurers are complying with their regulatory requirements to have appropriate systems and controls in place.

or forfeit a significant volume of business to their competitors. Stakeholders have suggested to us that brokers seek enhanced remuneration for taking part in these facilities since they are providing guaranteed business to insurers. Smaller insurers may not be able to afford to pay these amounts and may be stopped from competing in the sector.

4.19 In addition, smaller underwriters may not have the underwriting capacity to take part in these facilities. When insurers sign up to these facilities, they may agree to blind underwrite any risk that the broker places in the facility – within some agreed parameters – and smaller syndicates may not have the capacity or business model to take part. For example, Lloyd's syndicates agree their maximum underwriting capacity on an annual basis, so they may not be able to enter these facilities. Smaller brokers also may not have the network or depth of relationship with underwriters that the larger brokers have.

4.20 The FCA has an objective to promote effective competition and is indifferent to the success or failure of specific competitors. However, we would be concerned if the exit of certain firms harms the competitive process. It could be harmful if the use of facilities raises barriers to expansion or entry in the sector, by denying smaller players and potential entrants sufficient scale to compete effectively.

4.21 Greater use of facilities may risk undermining the expertise of the wholesale insurance sector by taking a passive approach to underwriting insurance risk. Normally each underwriter makes an active decision on whether or not to take on an insurance policy, but in many of these facilities insurers automatically follow the decisions taken by other insurers. While this avoids the costs associated with employing underwriting teams, it may also undermine the expertise within the London Insurance Market. This may affect the ability of the market to insure these complicated, bespoke risks in the future.

4.22 There are other factors that risk harming competition, for example, the consulting and data services offered by brokers to some insurers may restrict the ability of other insurers to compete. We have heard concerns about pay-to-play, with insurers who are not participating in some services offered by brokers, either by purchasing their services or being included in these facilities, struggling to obtain business from brokers in the open market. This is because these facilities and data services effectively create a panel of insurers. Insurers which are not on such panels may find that they have fewer opportunities to compete or less access to key staff at broker firms. However, it is important to note we would usually consider the existence of services that lead to better purchaser outcomes to be pro-competitive.

4.23 We will assess how these practices and sector developments may be decreasing the volume of business for some insurers. We will consider the difficulty of this within the wider soft industry conditions. If we find evidence of brokers having restricted access to the sector, we will consider how this could be harmful in the long-run. While the focus of this market study is primarily at the broker level, competitive dynamics at the broker level may have an indirect impact on clients because of the effect on underwriters, and so we will be mindful of the wider impact.

Tacit coordination

4.24 Coordination can happen when firms operating in the same market recognise that they are mutually interdependent and that they can reach a more profitable outcome if they coordinate to limit their rivalry. Such coordination can be explicit or tacit. Explicit coordination is achieved through communication and agreement between the parties involved. Tacit coordination is achieved through implicit understanding between the parties, but without any formal arrangements.

4.25 In our review of how the sector is operating, we will also consider the extent to which the conditions in the wholesale broker sector could make it easier for brokers to operate in a coordinated manner, even if there is no direct communication between them. We plan to examine whether indirect information sharing between brokers has the potential to allow brokers to reach a coordinated outcome. We have heard from stakeholders that brokers will often be provided with the existing terms and conditions, including pricing, of a rival broker's contract with that prospective client when tendering for business. We are concerned that this sharing of pricing data, and information on other relevant competitive parameters, could allow a coordinated outcome between brokers.

4.26 If such coordination occurred then we would expect competition between brokers to be softened, leading to, for example, higher retention rates and higher prices than would otherwise exist. We understand that some segments of the industry have very high retention rates, as well as relatively high and similar commission rates. To the extent we find evidence of such market outcomes, we will aim to understand whether these are the result of a competitive process, or a coordinated outcome.

4.27 At the same time, given the way the industry operates and the general ongoing dialogue between firms, firms should be mindful that they do not directly share any competitively sensitive information such as, for instance, their appetite to act in certain business lines or for certain clients and, if so, on what terms.

4.28 In this context, we remind brokers of Principle 11 of the FCA's Principles for Business, requiring firms to deal with the regulator in an open and cooperative way and to disclose anything relating to the firm of which the regulator would reasonably expect notice; which includes if they may have committed a significant infringement of any applicable competition law (see SUP 15.3.32). In addition, we encourage brokers to engage with us if they are aware of any potential infringements of competition law committed by either competitors (e.g. for anti-competitive arrangements) or suppliers (e.g. abuses of a dominant position). They could do so either in the context of our interactions for this market study or by filling in our online form (available at https://www.fca.org.uk/report-competition-law-infringements).

4.29 We emphasise that the purpose of this market study is not primarily to investigate infringements of competition law (which we can undertake under separate powers and with associated due process). Instead, we intend to look at whether lawful activity is nonetheless harming the competitive process (and we may intervene to address this). However, if during the course of the market study we discover forms of cooperation that are unlawful we could take action, such as competition law enforcement, where appropriate.

Q6: **Do you consider that there are any other potential issues we should consider in the course of the market study which are not outlined here? If so, please provide details.**

Q7: **Do you have any observations on Topic 1, Topic 2 or Topic 3, either on the descriptions or the merits of these concerns? If so, please provide details.**

Annex 1
List of questions

Section 2: Overview of the sector:

Q1: **Are there any important elements of sector dynamics which we have missed?**

Q2: **Do you have any comments or observations on the recent changes or drivers of these changes in the sector?**

Q3: **Do you have any observations on the impact of the changes described?**

Q4: **Do you have any insight/evidence on how the industry can be expected to develop in the next 5-10 years?**

Section 3: Rationale, scope and powers

Q5: **Do you consider that the scope is appropriate to assess whether competition is working well? If not, please explain why.**

Section 4: Topics to be explored

Q6: **Do you consider that there are any other potential issues we should consider in the course of the market study which are not outlined here? If so, please provide details.**

Q7: **Do you have any observations on Topic 1, Topic 2 or Topic 3, either on the descriptions or the merits of these concerns? If so, please provide details.**

Annex 2
Regulatory landscape

1. This Annex summarises the regulatory framework within which UK wholesale insurance brokers operate. In addition to the regulatory framework, brokers are also subject to requirements in the general law, such as the Insurance Act 2015, the Bribery Act 2010 and the fiduciary obligations of agents.

High-level requirements

2. All firms regulated by the FCA are subject to high-level requirements, including the following:

- FCA authorised firms must meet the Threshold Conditions in Part 1B of Schedule 6 of FSMA. These are the minimum standards that firms must meet to become, and remain, authorised. They include a requirement that firms must be fit and proper, must have appropriate resources, and must have a suitable business model having regard, among other things, to the integrity of the UK financial system.
- Firms must comply with the high-level Principles for Businesses, including the need for firms to conduct their business with integrity; to take reasonable care to organise and control their affairs responsibly and effectively, with adequate risk management systems; the need to pay due regard to the interests of their clients and treat them fairly; the need to manage conflicts of interest fairly, both between themselves and their clients and between a client and another client, and the need to take reasonable care to ensure the suitability of its advice and discretionary decisions for any client who is entitled to rely upon their judgement.[1] The FCA has also provided guidance on the Principles including for example the Responsibilities of Providers and Distributors for the Fair Treatment of Customers.
- There are high-level rules including requirements to have appropriate systems and controls to manage the firm's business and risks. Broadly, this will cover matters such as robust governance arrangements; effective processes and control mechanisms to identify and manage risks including non-compliance with regulatory requirements, conflicts of interest and financial crime such as bribery, appropriate skills, knowledge and expertise of staff[2]; and record keeping.

Detailed requirements

3. More detailed rules, many of which come from EU legislation, apply to insurance mediation. However, many of the Conduct of Business rules are not currently applied to insurance

1 Principles 6 (Customers' interests), 8 (Conflicts of interest), 9 (Customers: relationships of trust) impose requirements on firms expressly in relation to their clients or customers. These requirements depend, in part, on the characteristics of the client or customer concerned. This is because what is 'due regard' (in Principle 6), 'fairly' (in Principles 6 and 8), 'reasonable care' (in Principle 9) will, of course, depend on those characteristics. For example, the information needs of a general insurance broker will be different from those of a retail general insurance policyholder. (See PRIN 1.2.1G.)

2 The FCA is consulting on extending the Senior Managers and Certification Regime (SMCR) to cover all FSMA authorised firms, including insurance brokers. This regime aims to increase individual accountability with a focus on senior manager responsibilities.

intermediaries mediating reinsurance or contracts of large risk.[3] Much of the business undertaken by wholesale brokers will be classed as either reinsurance or contracts of large risk.

4. Where wholesale brokers mediate business with commercial clients that is not classed as a contract of large risk or reinsurance, they are subject to the detailed requirements in the FCA Insurance Conduct of Business Sourcebook (ICOBS), including the following, which are relevant to our work:

- fees[4] for insurance mediation activities to be paid by the client must be disclosed, and commercial clients have the right to request prompt disclosure of any commission paid to the firm or its associates in connection with a policy[5]
- brokers must also take reasonable steps to ensure clients are given appropriate information about policies in good time and in a comprehensible form, so that they can make an informed decision about the proposed arrangements. The appropriate information requirement applies, among other things, to the price of the policy.

5. The EU legislation which sets minimum standards of conduct of business requirements for insurance brokers, the Insurance Mediation Directive (IMD), is currently being revised and updated. A new directive, the Insurance Distribution Directive (IDD), will replace the IMD with effect from 23 February 2018. New requirements from the IDD that are relevant to firms dealings with commercial clients include the following:[6]

- firms must act honestly, fairly and professionally in accordance with the best interests of its clients
- remuneration of a firm or its employees, and performance management of employees, must not conflict with the duty to act in the client's best interests. Firms must not make any arrangements – such as by way of remuneration or sales targets – that could provide an incentive to recommend a particular contract of insurance when they could offer a different contract which would better meet the client's needs.

3 Contracts of large risk cover risks within the following categories, in accordance with article 13(27) of the Solvency II Directive: (a) relating to railway rolling stock, aircraft, ships, goods in transit, aircraft liability and liability of ships; credit (b) suretyship, where the policyholder is engaged professionally in an industrial or commercial activity or in one of the liberal professions, and the risks relate to such activity; (c) land vehicles (other than railway rolling stock), fire and natural forces, other damage to property, motor vehicle liability, general liability, and miscellaneous financial loss, insofar as the policyholder exceeds the limits of at least two of the following three criteria:(i) a balance sheet total of €6.2 million; (ii) net turnover of €12.8 million; (iii) average number of employees during the financial year of 250.

4 Other than premium monies.

5 The commission disclosure rule is additional to the general law on the fiduciary obligations of an agent in that it applies whether or not the insurance intermediary is an agent of the commercial customer, see ICOBS 4.4.3G.

6 Contracts of large risk where the risk is located outside the European Economic Area will not be subject to the detailed conduct of business requirements.

Annex 3
Abbreviations used in this paper

CMA	Competition and Markets Authority
EEA	European Economic Area
FCA	Financial Conduct Authority
FSA	Financial Services Authority
FSMA	Financial Services and Markets Act 2000
GWP	Gross Written Premium
IDD	Insurance Distribution Directive
IMD	Insurance Mediation Directive
MGA	Managing General Agent
SME	Small and Medium sized Enterprise

We have developed this work in the context of the existing UK and EU regulatory framework. The Government has made clear that it will continue to implement and apply EU law until the UK has left the EU. We will keep the proposals under review to assess whether any amendments may be required in the event of changes in the UK regulatory framework in the future.

You can download this Market Study from our website: www.fca.org.uk.

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