



Marking the boundaries

The introduction of principles-based regulation has resulted in more open relationships between intermediaries and customers. Mike Izzard explains the effect on AMII membership firms.

Recent regulation from the FSA has changed the way intermediaries have had to do business and how they now interface with their customers compared with the period before the introduction of principles-based regulation nearly five years ago.

Overall, the Association of Medical Insurance Intermediaries' (AMII) position on the introduction of FSA regulation is that it was a positive initiative, long overdue, but the result has been a little like over-egging a pudding. The phrase that has often been used to describe its effects on members' firms has been 'from the sublime to the ridiculous'.

Notwithstanding the rigours of capital adequacy and the stress of having to complete a six-month retail mediation activities return

report, the recent insurance conduct of business (ICOB) changes have had a positive influence on how clients are treated generally, and the crowning glory of the introduction of Treating Customers Fairly (TCF) has been eagerly anticipated. It has had the effect of further diminishing the relevance of the direct sales channels within the private medical insurance (PMI) sector, which was long awaited, as one of the basic tenets of 'fairly' means independent advice.

The negative effect of changes in regulatory status over the last few years is that it has fed the hunger of the consolidators by persuading the principals of small and medium-sized firms to sell out, while those that have not, have probably relinquished

their direct authorisations and become appointed representatives of the larger networks. However, since the economic crisis, this general trend has slowed down markedly and going forward will probably cease altogether.

A PERIOD OF ADJUSTMENT

AMII has been running regular training courses up and down the country, advising on the changes required in regard to the ICOB amendments, detailing such issues as the importance of the initial disclosure document and the terms of business agreement. It is generally believed that all members now have a handle on the requirements. This also applies to the larger firms in AMII's membership that employ a significant number of people within their compliance departments. This additional cost is of course being driven on to the consumer and it is to be hoped they appreciate what is a requirement to give them quality



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Colin Boxall



Case study one

Regardless of individual views as to the appropriateness of current and recent regulation and the approach of the FSA, Advo Group, as a financial company dealing with the public, has had to work within the rules. You can resist or embrace. Yet Treating Customers Fairly (TCF) is an opportunity for review and to strengthen a business.

Advo has, even prior to the days of the General Insurance Standards Council (GISC), sought systems and practices that mirrored the then regulated firms. With the onset of GISC and, later, FSA the difficulty has always been how to implement and create systems that comply. We have always been told what is non-compliant but never the correct way to do it, meaning that we have to discover for ourselves.

However, having embraced FSA regulation Advo embedded principles such as TCF throughout every department of the firm. Advo offers solutions-based advice, which cannot be achieved without first understanding the challenge. TCF is a major step away from an intermediary 'selling on price' alone. This has to be a positive for everyone and an investment in the future of the industry.

There must come a change in attitude across the whole organisation starting from the top. Advo is proud of its administration and back office systems that predetermine all sales and client management activities and processes. Although staff have to follow these processes that guarantee adherence to compliance, it is essential that TCF and the principles are the bedrock of the business. It has to be the starting point for all activities.

A solution may only solve the current problem – it is only by constantly reviewing and understanding evolving issues that clients can be consistently advised. When selling and administering companies, advisers need to communicate with employers and employees, giving ongoing advice and assistance.

It is necessary to place huge emphasis on staff development and operate numerous different levels of ongoing training for each member of staff. This ranges from compulsory Chartered Insurance Institute examination to continuous insurer and in-house training. Developing systems alongside constant training and re-training takes considerable resources but this investment makes businesses stronger and better prepared to compete.

Colin Boxall is corporate director at Advo Group

advice in a more fair and transparent way.

Of course, the concept of treating customers fairly was driven, in the most part, to be more inclusive on the sales process and to make the client feel part of it, as well as trying to eradicate the bad sales procedures that had unfortunately permeated the industry in the 90s.

EMBRACING CHANGE

The case studies show how some AMII members are embracing the new era of principles-based regulation and how it can further consolidate relationships with their clients. This can only be a positive thing considering the difficulties the economy is bound to endure over the next few years.

As AMII chairman I have another 18

months of my term of office to help steer the association through some extraordinary challenges but I see the recent FSA changes as really positive, especially so with regard to TCF. My own firm, the Premier Choice Group, has established a TCF policy that every client is given as part of their documentation and we actually encourage them to challenge the effect it has had on them.

The last five years has had a distinct effect on the PMI market and on AMII members, past and present, but we look forward to the new world of tighter regulation with optimism and fortitude. Commission disclosure? Well that is another story. □

Mike Izzard is chairman of the Association of Medical Insurance Intermediaries

Case study two

When FSA regulation was introduced on 14 January 2005, the decision was to make all statutory disclosures via terms of business agreement and for the firm to continue to use this method. The terms of business wording were reviewed in light of the change to the insurance conduct of business sourcebook (ICOB5). Ultimately, it was decided that no changes were required.

The move from specific rules to 'principles and outcomes' gives the industry more flexibility in how it deals with clients but the outcome should remain the same. The original rules specified that all renewal documents should be issued to clients at least 21 days before the renewal date, while the new regulations ambiguously require documents to be issued 'in good time'.

Efficient insurers manage to issue renewal documents six weeks before the client's renewal date. It would be good to see all insurers aspiring to this standard rather than letting delivery dates slip below 21 days, which should remain an absolute minimum. More detailed rules and guidance have been introduced for sales via the internet and firms must ensure their sites are reviewed to ensure they are made compliant with the new rules.

There seems to be a wide divergence of opinion on how to comply with Treating Customers Fairly when processing client renewals. It is already common practice to obtain alternative quotations for group schemes at each renewal and some intermediaries say they now intend to do the same for individual policies. As long-standing clients are often obliged to stay with the same insurer because new health problems have developed, Medical Fees Insurance Agency will not re-quote automatically but will include in the renewal letter an offer to carry out a market review at the client's request when savings are known to be possible.

David Worth is principal of Medical Fees Insurance Agency