



## General Insurance Regulation, A Different Set of Rules?

*In this article, Trevor Goodbun argues that whilst general insurance can learn a great deal from the experiences of the investment sector, caution needs to be exercised about the wholesale import of existing practices.*

*There are fundamental differences between general insurance and investments which means that what is right for one is not automatically correct for the other.*



At a recent training conference a number of practitioners discussed the best ways of achieving the FSA's training and competence requirements within the general insurance sector.

Many of those attending had extensive experience of how to achieve competency within the investment sector, but from many of the comments made it was clear that very few had a practical understanding of the general insurance marketplace.

This is a situation I have come across a number of times in the last 18 months with many applying the rules that apply to the investment sector directly to general insurance. For example I reviewed one T & C scheme that required sellers to be individually registered with the FSA (not a requirement for GI) whilst making no mention on how the good reputation requirements would be achieved.

Good reputation being a frequently overlooked requirement for all those carrying out and managing regulated GI activity.

Another example involved a discussion about what conclusion of contract meant. You have probably had that one yourself! The compliance adviser was totally accurate in his understanding of the technical aspects of when this would be, but singularly failed to appreciate the practical consequences of business going on risk instantly.

Furthermore many of the practices followed in the investment sector are not FSA requirements but practices that have become the norm over the years. Span of control ratios, locum requirements, CPD, and observations are not FSA requirements, but rather methods of achieving those requirements.

These may be perfectly good methods of achieving the FSA requirements, but they are not requirements in themselves, and there may be alternatives that may be more appropriate for the general insurance sector.

There is much to be learned from the experience of our colleagues in the investment sector, but we should be wary about the wholesale importation of solutions from one market to another.



The FSA is aware of these differences, hence a different set of rules applying to general insurance, many sensibly drafted to reflect the nature of the business. For example the lack of an exam requirement reflects an understanding that general insurance population covers everything from the volunteer in a charity shop to those in the London market insuring some of the biggest and most complex risks in the world.

Some of the differences are obvious, others less so, but all are fundamental to the relationship between customer and supplier, and the compliance implications of that relationship.

In the rest of this article I will highlight some of those differences and why I believe an approach tailored for general insurance is required.

The first difference is commission. In the main, sales of investments are remunerated by an initial lump sum with a very small "trail" or ongoing commission. Renewals are virtually non-existent. This means for a given piece of business the longer it is on the books the less profitable it becomes to service. As a result many of the competencies used for investment business revolve around the initial acquisition of the business.

However the commission structure for GI usually means the longer the customer is retained the more profitable that customer becomes. This means from a business point of view that greater emphasis needs to be placed on handling the renewal and the ongoing servicing of the business. This is doubly important given the annual nature of most products. Every year we must compete, often against cheaper alternatives to retain our customer

Secondly, the need for general insurance is often inherent. For example owning a car nearly always creates a need to insure it, all central heating boilers have an inherent risk of breakdown. Whilst this exists to some extent for life and investments the link is not usually so explicit, at least not in the customer's mind.

Thirdly as a rule GI products are more complex than investment ones. I would expect some to challenge this but for example a household or motor policy is far more complex than the average pension or life policy. The definition of what is covered, to what extent, the limitations and exclusions creates significant scope for differences between products and providers.

As a result the GI broker has to know more about the individual characteristics of a particular policy than his investment counterpart where there is often little difference in product structure between providers.

On the other hand, for many, regulated GI activity is a secondary activity often accounting for a relatively small proportion of the individual's daily tasks. Most of those working for banks and building societies fall into this category. With investments and to a lesser extent mortgages regulated activity makes up most if not all of daily activity.

As a result within the investment field a single T & C scheme usually embraces all aspects of training and competence, including initial training and assessment, failure policy, recruitment etc. For those selling GI as a secondary activity the T & C scheme will often only cover a small part of overall activity.

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This means that for the T & C arrangements to work they must be fully integrated into other HR and other business functions, rather than bolted on as a separate item. Perhaps for many businesses selling general insurance, a separate T & C scheme is not the best way of doing things, and it would be more effective to incorporate the regulatory requirements into existing performance measurement and HR practices. Whilst this may sound like heresy there is no FSA requirement to have a T & C scheme per se, although you will need to prove how you achieve their T & C requirements.

Lastly and perhaps most importantly the consumer risk for general insurance is lower than mortgages or investments. Who says so? , The FSA for a start. Given that the FSA operates on a risk based approach it may well be that an appropriate safeguard or course of action for investments is totally unnecessary for general insurance.

One thing is for sure, it is imperative that as an industry we develop our own compliance expertise, one that is appropriate to general insurance. Training and competence is more than a regulatory requirement it is essential to the success of our industry. However that training and competence must be appropriate for general insurance.



If you would like to discuss this article or any aspect of compliance or training and competence or just have a chat, please feel free to call or email me. Details are at the foot of the page.

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