

FCA Finds No Evidence of Competitive Harm in Wholesale Insurance Broker Market Study

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Background

As the new financial year approaches, market participants in the wholesale insurance broker sector and connected industries may want to consider their internal processes and procedures given the FCA's statements made about the sector in its investigation which concluded in Q1 2019.

On 20 February 2019, the United Kingdom's Financial Conduct Authority ("FCA") [published](#) the final report for its Wholesale Insurance Broker Market Study ("Study") which was launched in November 2017. According to the FCA, it launched the Study to assess how effectively competition is working in the sector. Back in November 2017, the FCA stated that one of its key missions is to ensure that wholesale markets, including the London Insurance Market, demonstrate transparency, open access, integrity and competition on merits. The London Insurance Market is one of the biggest global centres for placing and underwriting large-scale, complex commercial and specialty risk, complex commercial and specialty risk, controlling more than US\$91 billion in gross written premiums ("GWP") in 2015. It is almost exclusively intermediated, with brokers placing the risks that are written by UK and international insurance companies and Lloyd's syndicates.

Topics Investigated by FCA

As part of its Study, the FCA explored the following three main topics to assess whether competition in the wholesale insurance broker sector works in the interests of clients:

Topic 1 - Market power

The FCA examined whether individual broker firms have market power and, if so, what impact this has on competition. Market power means firms having the ability to raise the prices of their services beyond normal competitive levels. The FCA also explored 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. The FCA also looked 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

The FCA reviewed 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. The FCA considered whether certain business practices may make this worse. For example, the practices could include channelling 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

The FCA examined how certain broker practices have an impact on competition in the industry. The FCA was 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. The FCA also considered whether there is any evidence of coordination between firms, potentially through an implicit understanding rather than a formal agreement.

Conclusions

The FCA noted that there were some room for improvement in the wholesale insurance broker market, including in relation to conflicts of interest, the information broker firms disclose to clients and certain specific contractual agreements between brokers and insurers. However, the FCA confirmed that these areas can be addressed within the FCA's usual supervisory processes. Further, the FCA concluded that there was no evidence of significant levels of competitive harm that merit the introduction of intrusive remedies to the sector. As a result, the FCA formally closed the Study but warned that given the "dynamic nature of the market", the FCA will continue to monitor developments in the broker business models and the effectiveness of competition in the sector.