# BRITISH INSURANCE BROKERS' ASSOCIATION

## Deregulating freight forward insurance – HM Treasury consultation paper

The British Insurance Brokers' Association represents the interests of 2,100 insurance brokers and intermediary business ranging from Lloyd's brokers and the major international brokers to small provincial firms.

In total our members handle more than £26bn of premiums and are responsible for generating the vast majority of insurance brokers' invisible earnings, amounting to almost £1.2bn in 2005.

BIBA members handle some 50% of the general insurance premiums placed in the UK market and more than 75% of business transacted by insurance intermediaries.

We welcome the chance to provide comment on this consultation paper and the questions it raises.

BIBA's response is as follows:

**Q1: Do you have any evidence on the potential for consumer detriment arising from freight forwarders' insurance activities?**

Given that the exemption would apply only to insurance activities where the customer is a commercial entity we see no great potential for detriment. Buying insurance from the forwarder is quick, efficient and economic. A non-advised sale on a standardised product provided by specialised marine insurers provides little risk to the commercial customer, which is likely to represent the majority of freight forwarder clients.

Consumer detriment is probably greater if the customer fails to effect insurance on small/isolated freight movements because his forwarder is no longer able or is unprepared to provide the service (for reasons see response below). It is small firms and retail customers who are most at danger in this respect.

While there is nothing in your proposals, we would be strongly opposed to any suggestion that insurers or brokers arranging cover should assume any additional obligations for the activities of 'de regulated' freight forwarders.

**Q2: Do you have any views on the impact of the current requirement for FSA regulation upon the international competitiveness of the UK's freight forwarding sector?**

The establishment and ongoing maintenance of a compliant operation has undoubtedly had cost implications for freight forwarders. London market brokers experienced a considerable loss of income as result of the regulation of this sector, and so deregulation will enable brokers to win back business. The general view is that an un-level playing field has been created by regulation, as it has enabled non-UK based brokers, who are in a position to provide unregulated global policies to forwarders with a domicile outside of UK, but a customer base within the UK.

Generally, the inability easily to facilitate the provision of cargo insurance has most likely affected the smaller shippers who do not have the volume to purchase their own cargo policy, hence the reliance on the services of the forwarder. If an insurer can be found to write only an occasional shipment it will probably be for a minimum premium which on a rated basis will be much more expensive than if they made their own arrangements. The problem is that many insurers and brokers are not prepared to handle small shipments, which are uneconomical to service, and also to insure. Companies with larger shipping values and who


have their own policy are not so badly affected either way, as they would be able to arrange their own cargo policy.

**Q3: Should the Government's proposed approach be widened to include an exemption from legislation for other activities which are similar in nature to freight forwarding and what are the arguments for doing so?**

The household removals business is one such industry that comes to mind where the activities are similar in nature to freight forwarding, although the majority of their clients are likely to be classified as retail customers. We would not wish to see a flood of exemptions from the scope of FSA regulation especially on the retail side, which would be adverse to public interest.

Retail customers benefit from the safeguards set out in the FSA rules and while the proposals relating to freight forwarders only apply to commercial customers it must be remembered that the vast majority (in number terms) are very small businesses with limited resources. Great care must be taken in assessing whether to widen the exemption to other activities. We would not want to see any changes to the regulatory regime that would reduce the quality of advice or disclosures available to retail customers. Nor would we want to see changes that undermined the reassurance that retail customers are given through access to the Financial Ombudsman Service and the Financial Services Compensation Scheme.

**Q4: Do you have any comments on the partial Regulatory Impact Assessment (RIA) in chapter 4?**

(Q1: Do you agree with the analysis of costs and benefits for the different implementation options, as well as the impact on competition and small firms?

Q2: Are there any alternative ways of removing freight forwarders from the scope of FSA regulation that should be considered?)

We have no comments.

**Q5: Do you have any comments on the draft Statutory Instrument in Annex B?**

We have no comments.