SureStone Insurance

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Re: Consultation Paper CP116 Intermediary Inducements

SureStone Insurance is an authorised Insurance Company which is regulated by the Central Bank of Ireland. We offer specialist and niche product expertise adding value to brokers by providing them with delegated authority and access to scheme management facilities that are not available in the traditional insurance market.

SureStone's distribution strategy is to support Managing General Agents (MGA's) who in turn distribute classes of products in niche segments of Property, Liability and Motor. The benefit of working with MGA's is they have a unique understanding of their customer's needs and have established route to market either direct to customer/business or via an intermediary model. They have experience in product design, sales, administration and a level of technical knowledge that complements SureStone. Often, this is beneficial to the customer with products designed for their needs which can include enhanced service offerings not available in the broader market.

Contractually, the MGA is the agent of the insurance company and receives a fee paid by the insurance company. The MGA will normally complete a number of work transfer tasks on behalf of the insurer including policy administration, premium collection, and where authorised process payments. MGA's are required to be segregated from retail brokers as they operate solely as agents of the insurance company and therefore have minimal exposure to conflicts of interest with insureds. Remuneration for conducting the work transfer of the insurer and acting on our behalf should be considered differently to retail broker or intermediary inducements.

Under the policies that are issued by SureStone the principle remuneration paid is an MGA commission.

- MGA Commission, which is a commission paid to MGA's in recognition for the work transfer performed on behalf of SureStone. Services performed include sales, marketing, product development, accounting and settlement, statistical analysis and reporting.
- If the MGA is distributing products directly to customers, they may decide to utilise some of the commission for acquisition costs such as marketing and sales.
- Retail brokerage, which is a fixed percentage of the premium charged by SureStone, is paid to regional insurance brokers who provide services to the insured. The retail broker helps the

insured to find the most appropriate insurance policy and helps them to determine whether policies should be changed, provides assistance with compliance with policy terms and helps with submitting claims and receiving benefits.

- Where an MGA is wholesaling a product and/or service to a retail broker/intermediary, the MGA may decide to provide a retail commission. Often in this case, the commission is based upon a fixed percentage of the premium.

One of the key principles that SureStone follows is to align the interest of the MGA's through linking of MGA commission paid based on underwriting performance. This is achieved by a provisional commission being provided to the MGA, that after a defined period, normally 18 months or more, can be adjusted, dependent upon the actual loss ratio performance of the portfolio. SureStone is therefore encouraging the right behaviours of the MGA, who acts on SureStone's behalf, through good risk selection, pricing and service provision. If the performance of the portfolio is better than the agreed targets, the MGA could earn additional profit commission and in the event of loss ratios worse than target may be required to return some of their commission. This alignment of interest is critical as the MGA acts on behalf of the insurer.

For clarity, SureStone does not provide remuneration based upon individual customer performance but rather the portfolio performance over a longer period. This reduces any potential impact to individual policy holders.

SureStone has reviewed the Central Bank of Ireland's Consultation paper 'CP 116 Intermediary Inducements – Enhanced Consumer Protection Measures' and will comment on questions 7 and 8.

<u>Question 7</u> **Do you have any views on the proposal that inducements contingent on achieving targets that do not consider the consumer's best interests, including profit targets, volume targets, and targets linked to business retention, are deemed to be conflicts of interest and must be avoided? Please explain your answer.**

We agree that insurance intermediaries should not be remunerated in any way that conflicts with the duty to act in the customer's best interests. This is especially relevant for arrangements that could act as an incentive to recommend a particular product when another product which would better meet the customer's needs could be offered. Where an intermediary is working directly for an insured we agree that inducements should not be contingent on profit or volume targets or targets linked to business retention.

We believe that insurance companies must implement sales remuneration practices that focus primarily on the quality of sales to their customers rather than the quantity. All regulated financial service providers are required to act in their customers best interests and to provide products and services that are suitable to the needs of their customers. Therefore it is important that remuneration arrangements are fully aligned with these goals.

However, CP116 needs to consider that many intermediaries receive remuneration for performing activities on behalf of the insurance company and this work transfer is often included in the remuneration available to a MGA.

In addition, the MGA works on behalf of the insurer and may be incentivised to develop a profitable portfolio. Creating the right product, risk selection criteria, pricing and portfolio balance may be reflected in a provisional commission plus profit commission that aligns the interest of the two organisations.

<u>Question 8</u> Do you have any views on what, if any, unintended consequences may arise in implementing this proposal? Please explain your answer.

CP116 does not differentiate between inducements paid to retail insurance intermediaries who act on a consumer's behalf and inducements paid to MGA's who act on the insurance company's behalf. MGA's play an important role in the insurance market because they assist retail brokers and insureds to access specialty products and coverages which are specifically designed to meet insureds' needs and provide specialist knowledge and expertise to the retail broker and so to the insured.

As noted above insurance companies pay commissions to MGA's based on underwriting result for one particular scheme or for a portfolio of schemes. Under CP116 there is a risk that these could be considered as inducements based on profit targets and so deemed a conflict of interest which should be avoided. In actual fact basing an MGA's commission on profit under a delegated authority ensures that the MGA is not binding business for volume but is incentivised to develop a profitable portfolio, ensuring that the terms of the binding agreement are followed and unprofitable business is avoided. This will ensure that appropriate prices and terms and conditions are charged under the scheme which will benefit the customer.

An unintended consequence of CP116 could be that MGA profit commission arrangements are no longer accepted, resulting in a fixed commission to MGA's which would not be in the interest of insureds or insurance companies which employ them for their underwriting and claims administrative services.

If you require clarification on these comments please do not hesitate to contact me.

Yours sincerely,

P. Jewell

Paul Jewell
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SureStone Insurance dac