PIBA submission on the Consultation on Impact Metrics for the Risk Based Supervision of Financial Firms by the Central Bank and on Impact Based Levies

FEBRUARY 2011

The Professional Insurance Brokers Association (PIBA) is the largest independent representative body for insurance and mortgage brokers with nearly 900 member firms throughout Ireland. This submission outlines a response to the consultation on Impact Metrics for the Risk Based Supervision of Financial Firms by the Central Bank and on Impact Based Levies on behalf of our members.

Supervisory Engagement Models

PIBA believe that Intermediaries should fall into the low Impact risk category for supervisory purposes. Brokers by nature are low impact financial service providers, they can only handle cash under indemnity and hence the likelihood of their failure causing a systematic failure is limited. It is clear that the nature of advice given and associated consumer loss is the only area for regulatory concern.

In order to reduce the level of costs in supervising intermediaries, PIBA agrees with the proposed approach of the Central Bank of Ireland communicating by email with Brokers in relation to submission of accounts etc. PIBA advocates that intermediaries make payment of Central Bank levies by Direct Debits and we also suggest that a centralised system for collection of all applicable levies (such as the ICCL and Financial Services Ombudsman levies) is set up. We would also suggest that if a regulated entity fails to make their income returns by the required deadline that a default levy charge is applied. We believe that these suggested processed will reduce costs to the Central Bank of Ireland for dealing with a large number of firms.

It is a requirement for intermediaries to hold adequate professional indemnity, PIBA believes that Professional Indemnity providers should make annual returns to the Central Bank of Ireland in order for a cross check to be completed to ensure that all intermediaries still holds the adequate level of professional indemnity. This will ensure that client's loss would be covered in the event of a mis-selling. A similar check should be put in place to ensure Brokers are paying ICCL and FSO fees.

PIBA firmly believes that regulation should be structured in such a manner that Brokers can learn from issues identified by the Central Bank of Ireland during inspections. These issues should be communicated by email to Intermediaries and the Central Bank should use the existing industry structures such as representative bodies like PIBA to spread the information and promote compliance within the industry.

Impact Derived Levies

Question 3

Do you regard the Central Bank's plan to use impact metrics as a major determinant of the levies firms pay as fair? If not, why not?

a) ***Would you favour phasing in the changes in the weight of the net annual funding requirement attaching to different industry categories, should the introduction of levy setting by impact score alter the current balance of the net annual funding requirement between different industry categories?***

PIBA is in favour of the Central Banks plan to phase in impact metrics as a method of determining levis firms pay and believe it to be the fairest method. We believe that the transition to the impact metric system should be introduced as soon as possible rather than having a phase in period.

Question 4

Do you think the impact metrics set out above are the appropriate impact metrics for each type of firm? Which two or three would you attach the greatest importance to in each firm category?

PIBA believes that the most important mechanism for determining appropriate fees should be based on turnover. Other metrics which we feel should also be taken into account is number of Investment clients and number of sales staff.

Question 5

What other impact metrics should the Central Bank consider using for different types of firm?

The number of complaints received and upheld by the Financial Services Ombudsman could prove a useful metric. The number of complaints received should be taken proportionate to the size of the firm.

Question 6

Should the Central Bank attach equal importance to the alternative impact metrics for different firm types you discuss in your responses to questions 4 & 5 above or should it attach more weight to one or another metric? If so, which ones?

We believe that the primary impact metric for Brokers is turnover. Regarding the other proposed metrics contained in the consultation paper, we do not believe that the number of customers should be the primary metric as Brokers often have a client bank which is made up of both active and passive clients.

PIBA would suggest the following division of risk impact metrics:

80% - Turnover/ 10% - Amount of ***Investment*** clients/ 10% - Amount of sales staff/number of advisors

Question 7
Should wholesale firms have different impact metrics from retail firms focused on consumers?
a) If so why?
b) If so, what should differ?

PIBA does not feel that wholesale firms should have different impact metrics.

Question 8
Are there categories of firm above missing which you would expect to see covered separately?
a) If so, what?
b) If so, which metrics should the Central Bank use?

PIBA - No comment.

Question 9
Are there any impact metrics and divisors above, which, whilst they might be helpful for firm supervision, would be inappropriate for allocating a firm to fee block?

a) If so, why?

PIBA feel that the number of appointments an intermediary holds is irrelevant as a risk metric. The number of staff/advisors is of some relevance but is not as effective a metric as turnover.

Question 10
In terms of category of firm, should the Central Bank consider sub-dividing some of the firm types above and applying different divisors to different types of firm?

a) If so, which firms?
b) If so, what divisors?
c) What would be the logic for the sub division

PIBA would recommend that the current income band structure should be amended to the following:

€0- €150,000

€150,000–€300,000

€300,000–€600,000

Remaining bands should remain as currently structured.

We feel that 0 – 150,000 is appropriate as the lowest band as it reflects the income range that the majority of Brokers operate in and that any lower band subsidizes firms who are operating on a part-time basis.