

PRESS RELEASE

GENERAL INSURANCE FIRMS REPORTED 662 INDIVIDUALS FOR CONDUCT RULE BREACHES

25 July 2022

General Insurance firms reported only 662 employees – including just three senior managers - who broke conduct rules to the Financial Conduct Authority last year, new information released by the FCA in response to a freedom of information (FOI) request by financial services risk and regulation firm Sicsic Advisory reveals.

Over 5,300 general insurance firms are required to inform the FCA of conduct rule breaches. The FCA has required intermediaries and brokers to train all staff on conduct rule and report breaches annually since March 2021, while the SM&CR rules have applied to dual-regulated insurers since December 2018.

The data shows a higher reporting rate amongst insurers, with 13.5% of personal and commercial lines insurers reporting conduct rule breaches, compared to just 2.5% of personal and commercial lines intermediaries in the year to 31 August 2021, the most recent figures available.

Nindy Mellett, Sicsic Advisory Senior Consultant, comments: “Given the size of the general insurance market, 662 reports seem on the low side. This raises questions around whether firms are training, identifying, and recording conduct rule breaches in line with regulatory requirements. The regime was introduced to improve standards, as such we would expect to see a higher number of breaches in the early years of implementation as firms respond to the higher standards.”

The three notifications related to Senior Manager Function (SMF) holders from personal and commercial lines intermediaries – but there were no notifications from Lloyd’s and London Market Brokers or from any insurers.

Nindy Mellett adds: “We would expect a lower number of breaches from those in more senior positions. These individuals have a higher potential to cause customer harm, as such, are subject to an extensive fit and proper person assessment. Nonetheless it is unexpected to see no senior manager conduct rule breaches for any Senior Manager in Insurance Firms or in the in the Lloyd’s market. This could be due a time lag in formally reporting incidents which can be complex to fully investigate, however it may be worthwhile for firms to ensure their breach identification and reporting process is as robust as it should be.”

Many of the latest reports included multiple breaches of the five conduct rules that everyone working in financial services must adhere to. Failure to act with integrity was the most common conduct rule breach, with 351 breaches, followed by 331 instances of failure to act with due skill, care and diligence.

The request also revealed that 71 of the 437 (16%) Lloyd’s and London Market brokers captured by the regime failed to return the required annual report of conduct rule breaches, as had 24 of the 150 personal and commercial lines insurers (16%).

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Nindy Mellett comments: "It is surprising that a sizeable minority of firms are still not submitting a regulatory return. This raises wider questions around whether these firms have fully implemented SM&CR. Those who are not yet submitting the annual form must work on their process at pace. We are expecting the FCA to compare responses and speak to the outliers on both sides. Those who haven't recorded any breaches should be able to demonstrate a functional reporting system that convinces the clean sheet reflects reality."

ENDS

About Sicsic Advisory

Sicsic Advisory is a London based boutique consultancy, focusing on financial services risk and regulation. The team has a unique combination of expertise gained through direct industry experience, consulting roles and regulatory supervision leadership role in the UK insurance market.

Sicsic Advisory assists Boards and Senior Management on financial, operational and commercial resilience with the objective to deliver sustainable business models.

For more information visit: <https://www.sicsicadvisory.com>

Notes to the Editors

Freedom of Information (FOI) response data: please read the full response with the FCA letter dated on 10 June 2022

Our ref: FOI8965

Freedom of Information: Right to know request

Thank you for your email of 21 January 2022, in which you asked for information concerning the Senior Managers and Certification Regime (SMCR), in respect of:

- (i) general insurers; and
- (ii) general insurance intermediaries.

Full details of your request can be found below in Annex A. We have processed your email in line with the provisions of the Freedom of Information Act 2000 (FOIA) and our response is detailed in Annex B. Please accept our sincere apologies for a delay in responding.

When reviewing our response, please note that the data have been extracted from a range of sources and systems, including firms' regulatory returns across different reporting dates, and there may therefore be discrepancies between them.

(...)

Annex B

Request 1

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Items / GI Portfolios	Personal and Commercial Lines Intermediaries	Lloyd's & London Market Intermediaries	Price Comparison Websites	Total
Section 1				
1. How many Insurance intermediaries are captured by the SM&CR regime?	4,502	437	18	4,957
2. How many persons are approved to perform SMF roles?	12,399	2,157	116	14,672
3. How many persons are certified to perform an FCA specific significant harm function?	7,691	1,868	123	9,682
Section 2				
1. How many firms have submitted REP 008?	4,286	366	16	4,668
2. How many firms have reported conduct rules breaches?	112	15	2	129
3. How many individuals have breached conduct rules?	529	18	6	553
4. How many are (i) certified to perform an FCA specified significant harm function (ii) Standard non-executive directors and (iii) other (i.e. all other conduct rules staff excluding SMF managers)?	(i) 7 (ii) 1 (iii) 521	(i) 0 (ii) 0 (iii) 18	(i) 0 (ii) 0 (iii) 6	(i) 7 (ii) 1 (iii) 545

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5. Please provide a breakdown of rule breaches as a number and percentage against each individual conduct rule	ICR1 - 249 (33%) ICR2 - 282 (37%) ICR3 - 2 (0.3%) ICR4 - 214 (28%) ICR5 - 8 (1%)	ICR1 - 12 (50%) ICR2 - 9 (37.5%) ICR3 - 0 (0%) ICR4 - 3 (12.5%) ICR5 - 0 (0%)	ICR1 - 6 (100%) ICR2 - 0 (0%) ICR3 - 0 (0%) ICR4 - 0 (0%) ICR5 - 0 (0%)	ICR1 - 267 (34%) ICR2 - 291 (37%) ICR3 - 2 (0.3%) ICR4 - 217 (28%) ICR5 - 8 (1%)
Section 3				
1. How many reports of Senior Manager Conduct Rule breaches have you received?	3	0	0	3
2. Please breakdown the numbers by their respective SMF e.g. SMF 1, 2, 3.	SMF 3 x 2 SMF16 x1			SMF 3 x 2 SMF16 x1
3. Of that number, what is the split between Form C and Form D notifications?	Form C x 1 Form D x 2			Form C x 1 Form D x 2
4. Of that number, what is the split between individual and Senior Manager Conduct Rules?	SC1 x1 SC2 x1 SC3 x1 ICR2 x2			SC1 x1 SC2 x1 SC3 x1 ICR2 x2

Request 2

Items / GI Portfolios	Personal and Commercial Lines Insurers (inc EEA)	Lloyd's & London Market Insurers	Total
Section 1			
1. How many Insurers are captured by the SM&CR regime?	150	229	379
2. How many persons are approved to perform SMF roles?	12,396	2,149	14,545

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3. How many persons are certified to perform an FCA specific significant harm function?	7,798	1,884	9,682
Section 2			
1. How many firms have submitted REP 008?	126	193	319
2. How many firms have reported conduct rules breaches?	17	11	28
3. How many individuals have breached conduct rules?	91	15	106
4. How many are (i) certified to perform an FCA specified significant harm function (ii) Standard non-executive directors and (iii) other (i.e. all other conduct rules staff excluding SMF managers)?	(i) 0 (ii) 0 (iii) 91	(i) 0 (ii) 0 (iii) 15	(i) 0 (ii) 0 (iii) 106
5. Please provide a breakdown of rule breaches as a number and percentage against each individual conduct rule	ICR1 - 70 (49%) ICR2 - 33 (23%) ICR3 - 0 (0%) ICR4 - 39 (27%) ICR5 - 0 (0%)	ICR1 - 14 (74%) ICR2 - 5 (26%) ICR3 - 0 (0%) ICR4 - 0 (0%) ICR5 - 0 (0%)	ICR1 - 84 (52%) ICR2 - 38 (24%) ICR3 - 0 (0%) ICR4 - 39 (24%) ICR5 - 0 (0%)
Section 3			
1. How many reports of Senior Manager Conduct Rule breaches have you received?	0	0	0
2. Of that number, please can you breakdown the numbers by their respective SMF e.g. SMF 1, 2, 3.			
3. Of that number, what is the split between Form C and Form D notifications?			
4. Of that number, what is the split between individual and Senior Manager Conduct Rules?			

Based on the data from REP 008 covering the period 1st September 2020 to 31st August 2021.