BROKERS IRELAND BRIEFING NOTE ON OVER REGULATION

MAY 2023

Introduction:

- Brokers Ireland represents 1,225 insurance and Financial Brokers, mostly micro-SMEs, that is with under ten employees and whose annual turnover or annual balance sheet does not exceed €2 million.

- These firms employ an estimated 13,200 people in the local economy.

- They are all required to have Professional Indemnity insurance with a minimum indemnity of €1.5 million, and to contribute to the Investor Compensation Company Ltd (ICCL).

- Most Brokers are non-cash handling and non-product producing. None are tied agents.

- Brokers have an increasingly important role to play in the community, providing access to impartial financial advice. This is particularly so with the withdrawal of banks and post offices.

- Brokers Ireland supports the high standards that regulation brings. However, the regulatory burden should be proportionate to the risks posed to consumers.

- The Central Bank's own PRISM (Probability Risk and Impact System) risk rating system categorises Brokers as low risk, yet they are regulated as if they were large insurance companies.

- There is significant consolidation going on in the broking industry and the cost of regulation and compliance is a key driver of this trend. The level of regulation should not be serving to diminish competition by forcing smaller brokerages out.

- Capital Markets Union (CMU) and the Retail Investment Strategy (RIS), the latter due to be published by the end of May 2023, aim to ensure consumers can get involved in the market with confidence and trust, and that participation is increased. Brokers play a pivotal role in achieving these objectives.

- Studies have shown that access to financial and insurance advice leads to better consumer outcomes, higher investment returns and financial protection. It also leads to higher understanding of financial needs by consumers and greater confidence in their financial future.

- The European Commission estimates that on average, a big company spends one euro per employee to comply with a single regulatory duty but a small business pays up to ten euro.

- In just one area of regulation alone, the authorisation process, in Ireland the smallest intermediaries undergo a 33-page application as part of the process while in Germany it is nine.

Sources of Over Regulation:

- The issue is that both EU and national regulation tends to come from a 'silo' approach with each piece starting from scratch and not taking account of how it could be incorporated into an existing framework. It results in duplicate requirements, contradictions and inconsistencies. For example, regulations (PRIIPS, GDPR, IDD) have considerably increased the amount of pre-contractual information the consumer receives. It often obscures what is really important.

    - For a typical IBIP (Insurance Based Investment Product) consumer documentation can run to 50 pages. This is leading to regulation fatigue with a real danger that what's important may be lost.

Finding a Solution to Over Regulation

- The European Commission is committed to the systematic and proportionate application of the SME test. The 2020 Programme for Government 'Our Shared Future' commits to cutting bureaucracy for SMEs and supports the SME text across Government to assess the potential for less stringent requirements and simplification of regulatory adherence.

- In January 2021 the Report of SME Task Force – National SME and Entrepreneurship Growth Plan was published. Brokers Ireland supports the aims outlined in the report, particularly the 'think small first principle' and the recommendation that regulations should be both created and administered in a way that minimises obstacles for SMEs and requires their interests to be taken into account at each stage of policymaking.

Where These Commitments Must Focus

- The Consumer Protection Code 2012 applies regulation on a 'one-size-fits-all' basis. A review of the CPC is now due. We believe there should be separate requirements for each sector, based on the PRISM or the proportionality principle.

- The Insurance Distribution Directive (IDD) was introduced in Ireland in October 2018. We see that as being good and balanced, offering a high level of consumer protection without applying onerous and contradictory rules for brokers/intermediaries.

- Directives, instead of Regulations, may facilitate more gradual, less disruptive transition into national law. Regulation tends to not be well adapted to national legal frameworks and therefore, cause uncertainty or disproportionately high compliance and transition costs for SMEs.

Our Ask of You

- That you would ensure the speedy implementation of the SME Task Force Report.
- That you would support Brokers Ireland in trying to achieve proportionate regulation of intermediaries' and in particular:
  - Ensure it becomes mandatory for the Central Bank of Ireland to adopt the principle of proportionality and compliance requirements would be set out on a practical level for intermediaries when issuing industry-wide requirements and guidance and expectations.
  - That the Consumer Protection Code review would move from the one-size-fits-all approach and that the revised regulations differentiate the responsibilities of providers/product producers and then, separate to this, intermediary firms.
  - That impact assessments should specifically consider the economic and social impact on SME brokers.
  - Ensure there is a more coordinated approach when drafting new requirements. The Department of Finance, the Central Bank, the Department of Enterprise, Trade & Employment and European Commission are critical in this respect.

Ends

BROKERS IRELAND