

# Update of the cost of regulation

Report to the British Insurance Brokers Association



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**Head Office:** 71-75 Shelton Street, Covent Garden, London, WC2H 9JQ, United Kingdom.

w: [londoneconomics.co.uk](http://londoneconomics.co.uk) e: [info@londoneconomics.co.uk](mailto:info@londoneconomics.co.uk) : [@LondonEconomics](https://twitter.com/LondonEconomics)

t: +44 (0)20 7866 8185 f: +44 (0)20 7866 8186

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Responsibility for the contents of this report remains with London Economics.

## Authors

Patrice Muller

Shaan Devnani

Viktoriya Peycheva



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## Glossary

BIBA	British Insurance Brokers Association
BIPAR	European Federation of Insurance Intermediaries

### Country/region name abbreviations

BE	Belgium	AU	Australia
CH	Switzerland	BM	Bermuda
DK	Denmark	HK	Hong Kong
DE	Germany	JP	Japan
ES	Spain	KR	Korea
FI	Finland	NY	New York (state)
FR	France	ON	Ontario
IE	Ireland	SG	Singapore
IT	Italy		
LU	Luxembourg		
NL	Netherlands		
NO	Norway		
PT	Portugal		
SE	Sweden		
UK	United Kingdom		

## Executive summary

The present report updates and expands the information on the direct and indirect cost of regulation provided in the 2011 study *Future regulation for insurance brokers* which had been prepared for the British Insurance Brokers Association (BIBA).

Information on direct regulatory costs faced by general insurance brokers in Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and Australia, Bermuda, New York (state), Hong Kong, Japan, Korea, Ontario and Singapore and indirect regulatory costs in the UK was gathered through two different approaches:

- First, information on direct regulatory costs was collected from relevant competent authorities and/or national associations of insurance brokers for three different firm sizes (small, medium and large).
- Second, a survey of UK insurance brokers was run to gather, among other, information on the level of indirect regulatory costs and views of how these indirect costs have recently evolved.

Overall, the analysis shows that direct regulatory costs in the UK are about twice as high as in the jurisdiction ranking just below the UK in terms of direct regulatory cost.

Moreover, the direct regulatory cost in the UK is 4 times (small firm) to 14 times (large firm) as high as the average direct regulatory cost across all the other jurisdictions of interest.

Of note is also the fact that, in three jurisdictions (Germany, South Korea and Spain), insurance brokers do not have to pay any annual regulatory fees or levies.

Overall, according to the results of the survey of UK general insurance brokers, total direct and regulatory costs are equal to 2.2% of insurance intermediation fee and commission income in 2013.

On average among all survey respondents, direct regulatory costs stood at 0.7% of insurance intermediation fee and commission income in 2013, while indirect regulatory costs were more than twice as high, reaching 1.5% of insurance intermediation fee and commission income.

Direct regulatory costs vary relatively little across different firm sizes. However, indirect regulatory costs are much more of a burden for small insurance broker firms.

Compliance costs (internal and outsourced) account for  $\frac{3}{4}$  of all indirect regulatory costs.

While indirect regulatory costs are high, an absolute majority of survey participants are of the opinion that the various types of indirect costs have not changed recently.

# 1 Introduction

The present report updates and expands the information on the direct and indirect cost of regulation provided in the 2011 study *Future regulation for insurance brokers* which had been prepared for the British Insurance Brokers Association (BIBA).

As in the 2011 study, the present analysis focuses on direct and indirect regulatory costs:

- Direct regulatory costs include all the fees and levies insurance brokers have to pay annually as a condition to be authorised to undertake insurance intermediation activities. In some cases both the insurance broker firm (a legal person) and the employees of the firm are subject to compulsory fees and levies.
- Indirect regulatory costs include the expenses incurred by insurance brokers in complying with the regulations and other requirements of the relevant authorities. Such indirect regulatory costs include the costs of resources dedicated to:
  - complying with the relevant legislative and regulatory framework;
  - meeting the various reporting requirements;
  - time and resources spent on preparing visits from the regulator;
  - etc.

The costs figures reported in the present study refer to the year 2013 and the countries covered by the analysis include 15 European countries and 8 non-European jurisdictions:

- European countries: Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom; and,
- Non-European countries/regions: Australia, Bermuda, New York (state), Hong Kong, Japan, Korea, Ontario (province), Singapore.

The second section of the report provides information on the direct cost of regulation in the various jurisdictions of interest for hypothetical insurance broker firms of three different sizes. The third section presents the results of a survey of UK insurance brokers on direct and indirect costs of regulation in the UK.

## 2 Direct costs of regulation in various jurisdictions

In order to benchmark the direct UK regulatory costs borne by insurance brokers against similar costs in other jurisdictions, information on the costs faced by three hypothetical firms of different sizes was gathered from the competent regulatory authority and/or the national associations of insurance brokers.

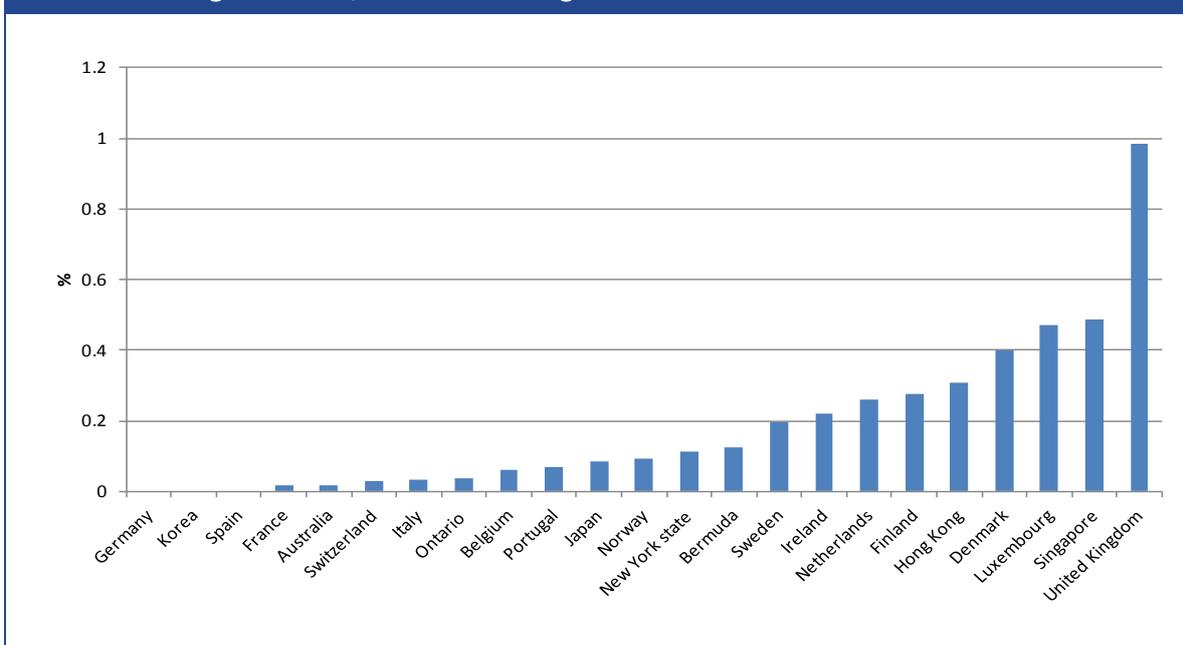
The list of organisations which were consulted as part of the information gathering exercise and the institutions to which annual fees and levies are payable is provided in Annex 1. This Annex also provides the detailed regulatory cost estimates for the different hypothetical firms.

It is important to note that only the recurring annual direct regulatory costs are considered. In other words, the cost figures shown below do not take into account special one-off initial registration fees or levies. The three hypothetical firms for which estimates of direct regulatory costs are provided below differ as follows in size (revenues and number of employees):

- Firm S: a small insurance broker firm with 3 general insurance intermediaries and revenues from insurance intermediation of €300,000;
- Firm M: a medium insurance broker firm with 30 general insurance intermediaries and revenues from insurance intermediation of €5 million; and
- Firm L: a large insurance broker firm with 1000 general insurance intermediaries and revenues from insurance intermediation of €100 million.

Figure 1 shows vividly that the **direct regulatory costs borne by insurance brokers in the United Kingdom are significantly higher than in any other jurisdiction covered by the present report.**

**Figure 1: Direct cost of regulation (as a percentage of insurance intermediation income) – average for small, medium and large insurance broker firm**

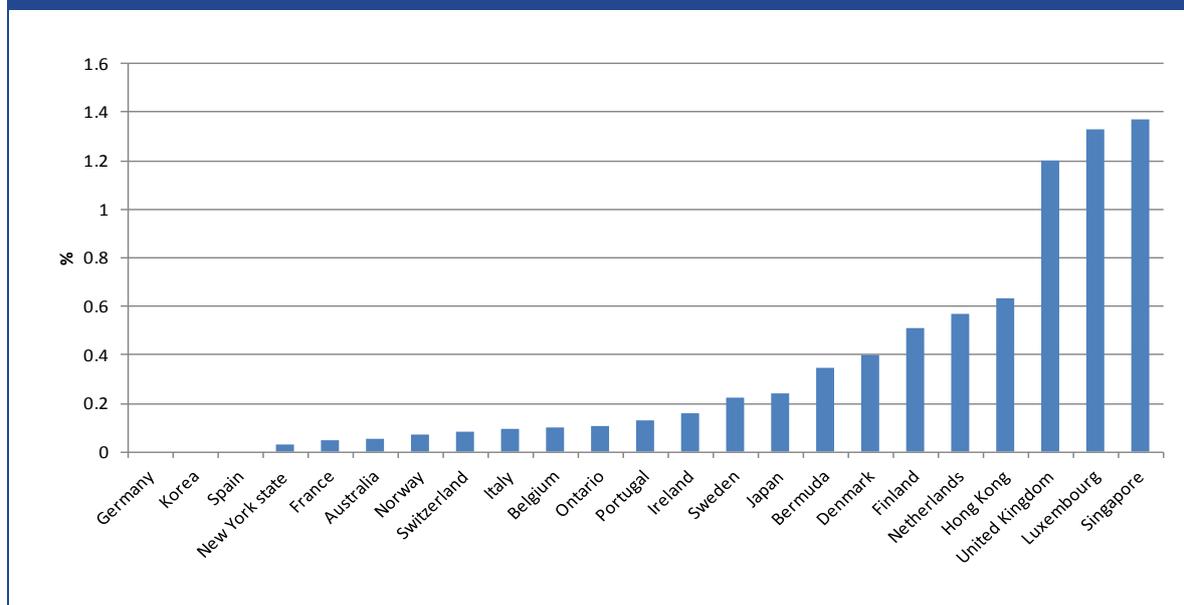


Note: A small insurance broker firm is defined as employing 3 general insurance intermediaries and generating revenues from insurance intermediation of €300,000.

Source: London Economics

In fact, direct regulatory costs are significantly higher than in the other jurisdictions for all firm sizes except Luxembourg and Singapore in the case of the small firm (Figure 2 to Figure 4).

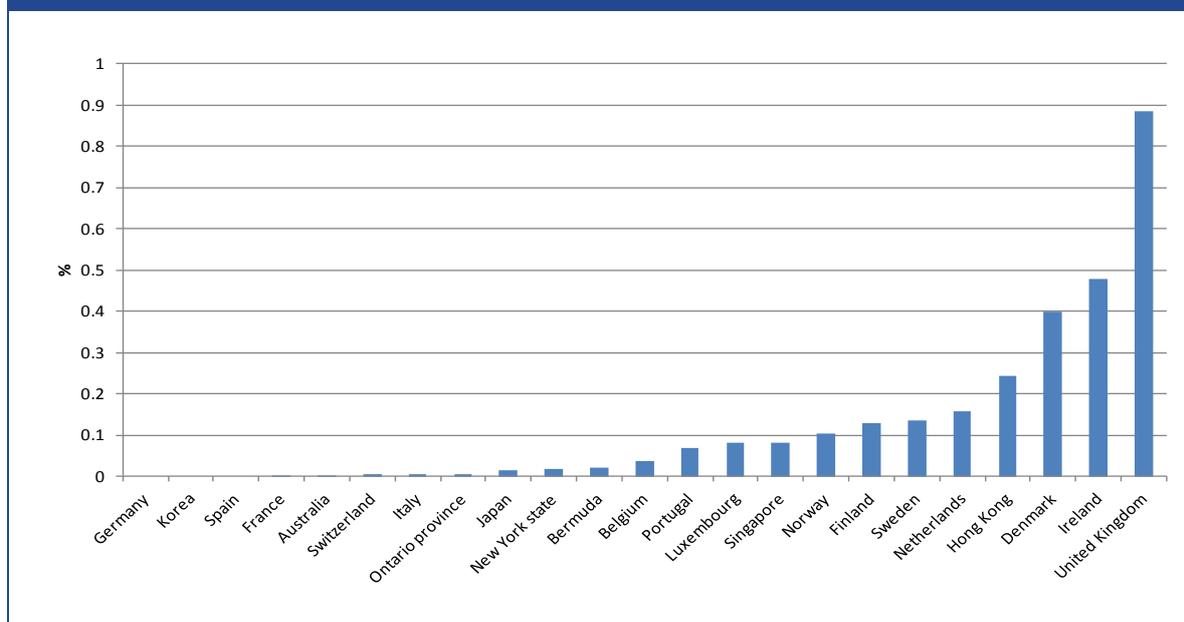
**Figure 2: Direct cost of regulation (as a percentage of insurance intermediation income) – small insurance broker firm**



Note: A small insurance broker firm is defined as employing 3 general insurance intermediaries and generating revenues from insurance intermediation of €300,000.

Source: London Economics

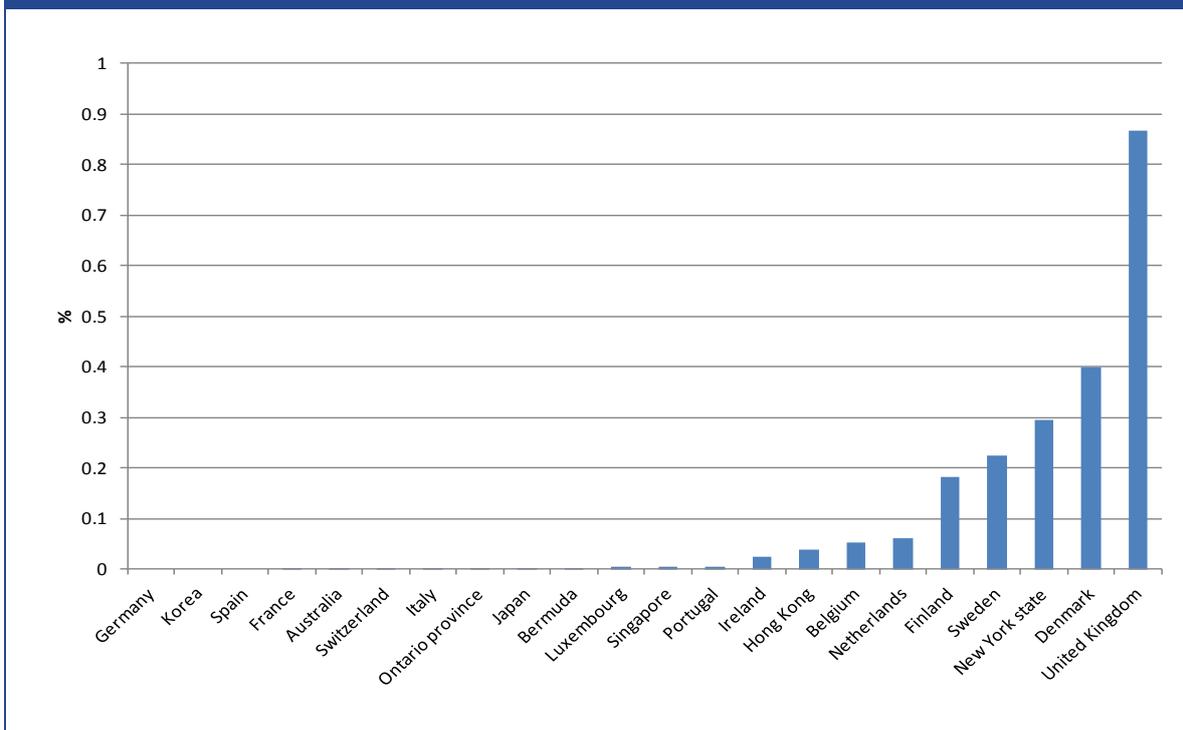
**Figure 3: Direct cost of regulation (as a percentage of insurance intermediation income) – medium insurance broker firm**



Note: A medium insurance broker firm is defined as employing 30 general insurance intermediaries and generating revenues from insurance intermediation of €5 million.

Source: London Economics

**Figure 4: Direct cost of regulation (as a percentage of insurance intermediation income) – large insurance broker firm**



Note: A large insurance broker firm is defined as employing 1000 general insurance intermediaries and generating revenues from insurance intermediation of €100 million.

Source: London Economics

Overall, the direct regulatory costs in the UK are about twice as high as in the jurisdiction ranking just below the UK in terms of direct regulatory cost (Table 1).

Moreover the direct regulatory cost in the UK is 4 times (small firm) to 14 times (large firm) as high as the average direct regulatory cost across all the other jurisdictions covered by the present study (Table 1).

Of note is also the fact that in three jurisdictions (Germany, South Korea and Spain), insurance brokers do not have to pay any annual regulatory fees or levies.

**Table 1: UK direct regulatory costs in comparison to the second most costly jurisdiction after the UK and the average direct regulatory costs in the comparator countries**

Type of insurance broker firm	Ratio of direct regulatory costs in the UK relative to direct regulatory costs in the jurisdiction ranking just below the UK in terms of direct regulatory cost	Ratio of direct regulatory costs in the UK relative to average direct regulatory costs across all jurisdictions other than the UK. t
Small	1.9	4.1
Medium	1.8	9.8
Large	2.2	14.1

Source: London Economics

### 3 Regulatory costs faced by firms in the United Kingdom

As part of the update of the assessment of the level of regulatory costs borne by general insurance brokers in the UK, a survey of UK brokers was run in November 2013 and early December. This survey sought information about the level of various types of direct and indirect regulatory costs and views on how, if at all, indirect costs have evolved in recent years.

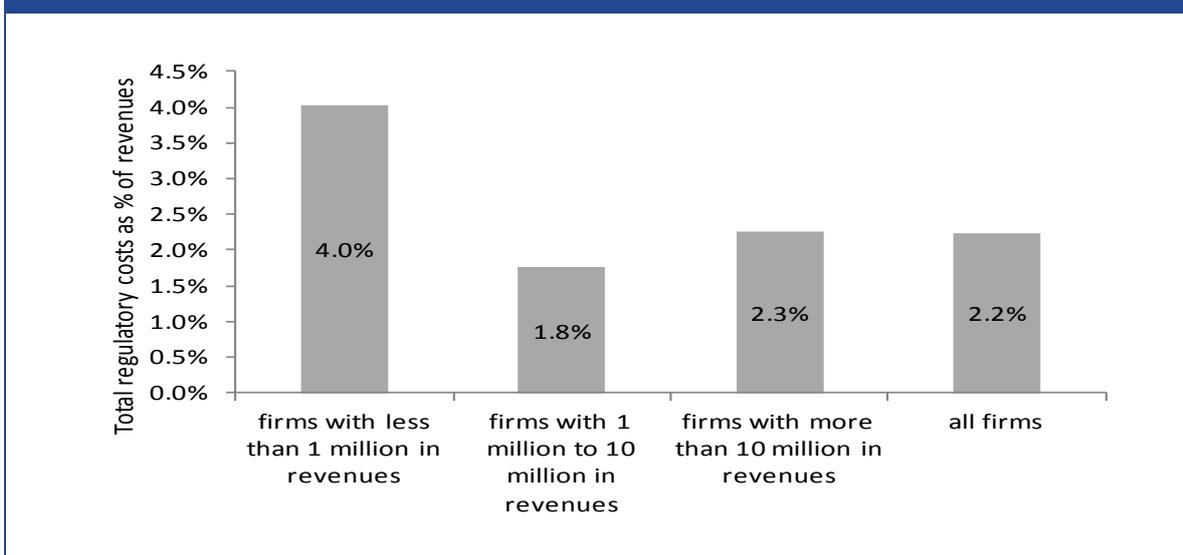
In total, 73 general insurance broker firms responded to the survey.

#### 3.1 Level of direct and indirect regulatory costs

**Overall, for the group of survey respondents, total direct and regulatory costs are equal to 2.2% of insurance intermediation fee and commission income in 2013.**

This overall figure, however, hides considerable variation across different firm sizes. For example, for small firms with less than £1 million in revenues, total regulatory costs stood at 4% of income, while for larger firms, it ranged from 1.7% (firms with revenues of £ 1 to £10 million income) to 2.3% (firms with revenues in excess of £10 million) (Figure 5).

**Figure 5: Total cost (direct and indirect) of regulation in the UK for different groups of insurance broker firms**

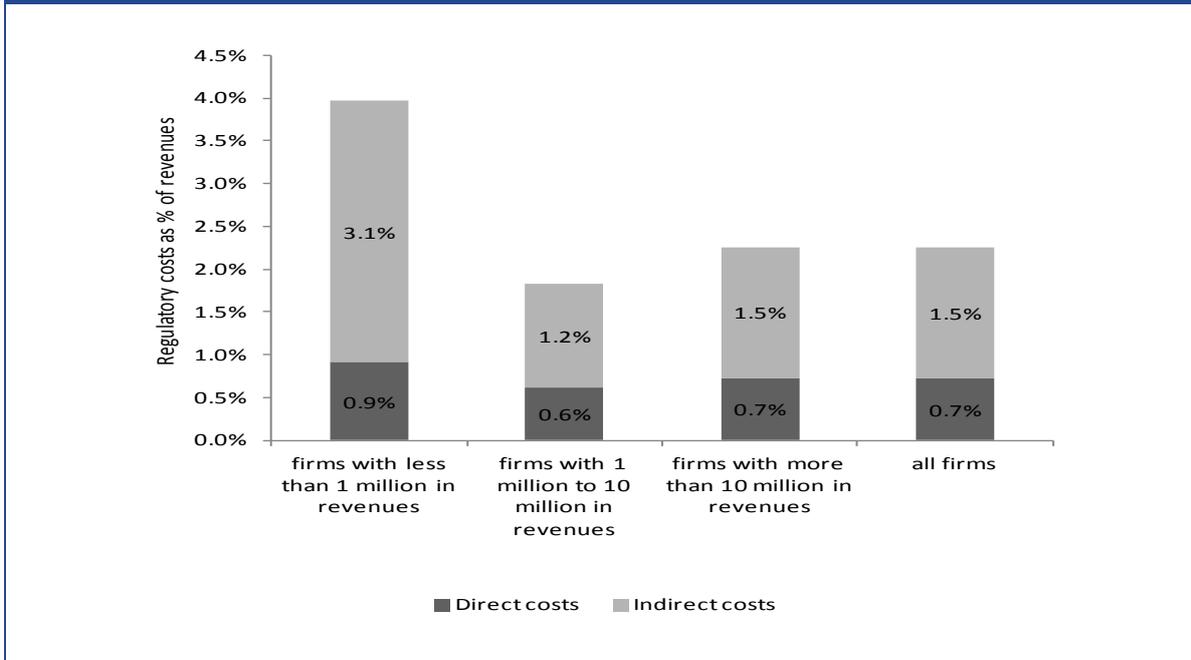


Note: revenues = general insurance commission and fee income

Source: London Economics analysis of BIBA survey of UK insurance brokers

**While direct regulatory costs vary relatively little across the different firms, indirect regulatory costs are much more of a burden for small insurance broker firms,** reflecting that some of these indirect regulatory costs are lumpy and vary less than proportionally with the level of firm activity and income (Figure 6).

**Figure 6: Direct and indirect cost of regulation in the UK for different groups of insurance broker firms**

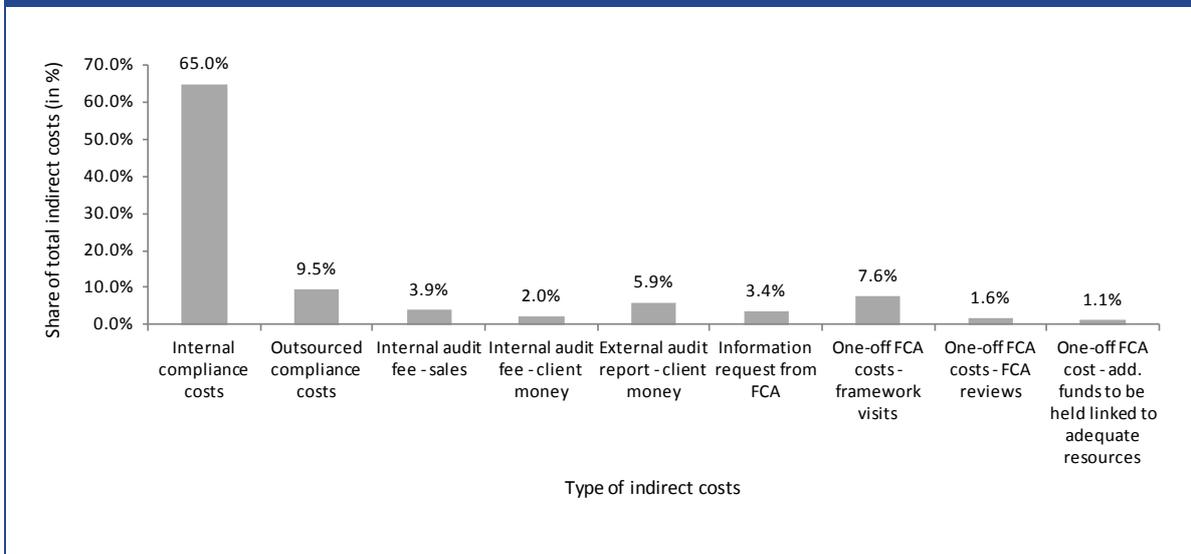


Note: revenues = general insurance commission and fee income  
 Source: London Economics analysis of BIBA survey of UK insurance brokers

### 3.2 Level of various indirect regulatory costs

A detailed analysis of the survey results shows that **compliance costs (internal and outsourced) account for ¾ of all indirect regulatory costs** (Figure 7).

**Figure 7: Composition of indirect cost of regulation in the UK - all insurance broker firms (percentage share of total indirect regulatory costs)**

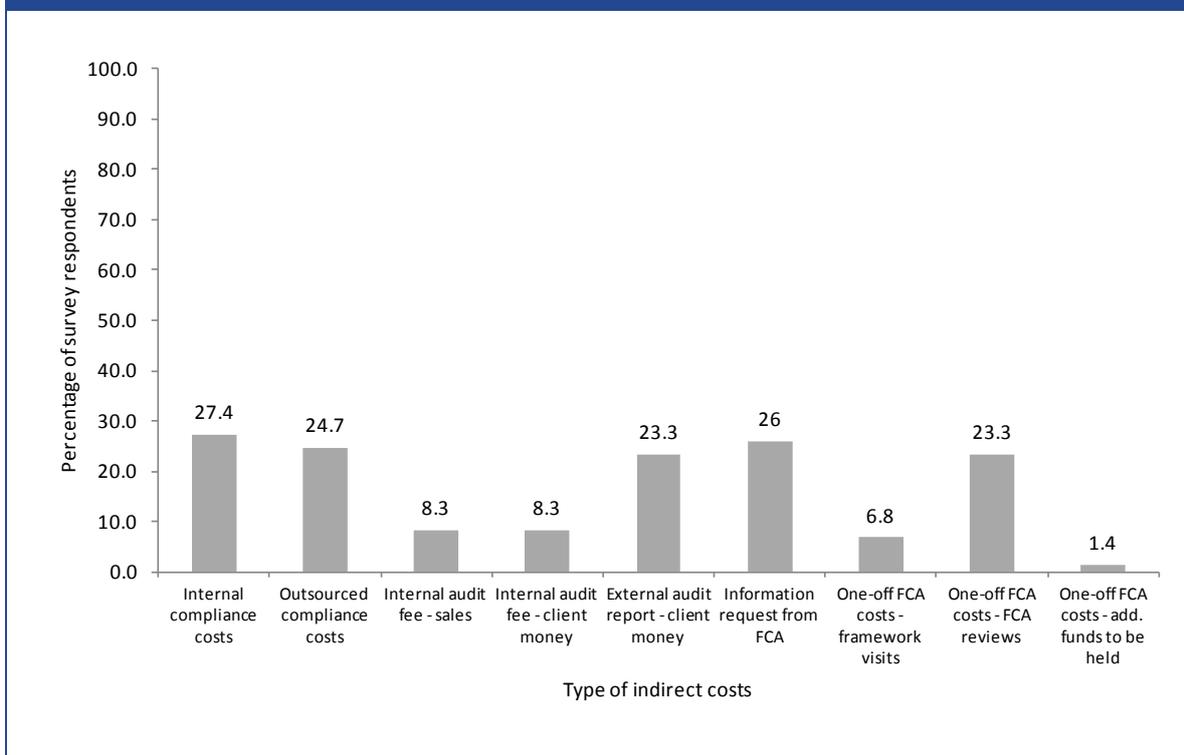


Source: London Economics analysis of BIBA survey of UK insurance brokers

### 3.3 Evolution of indirect regulatory costs over time

Less than ⅓ of survey participants are of the opinion that indirect regulatory costs have increased recently (Figure 8).

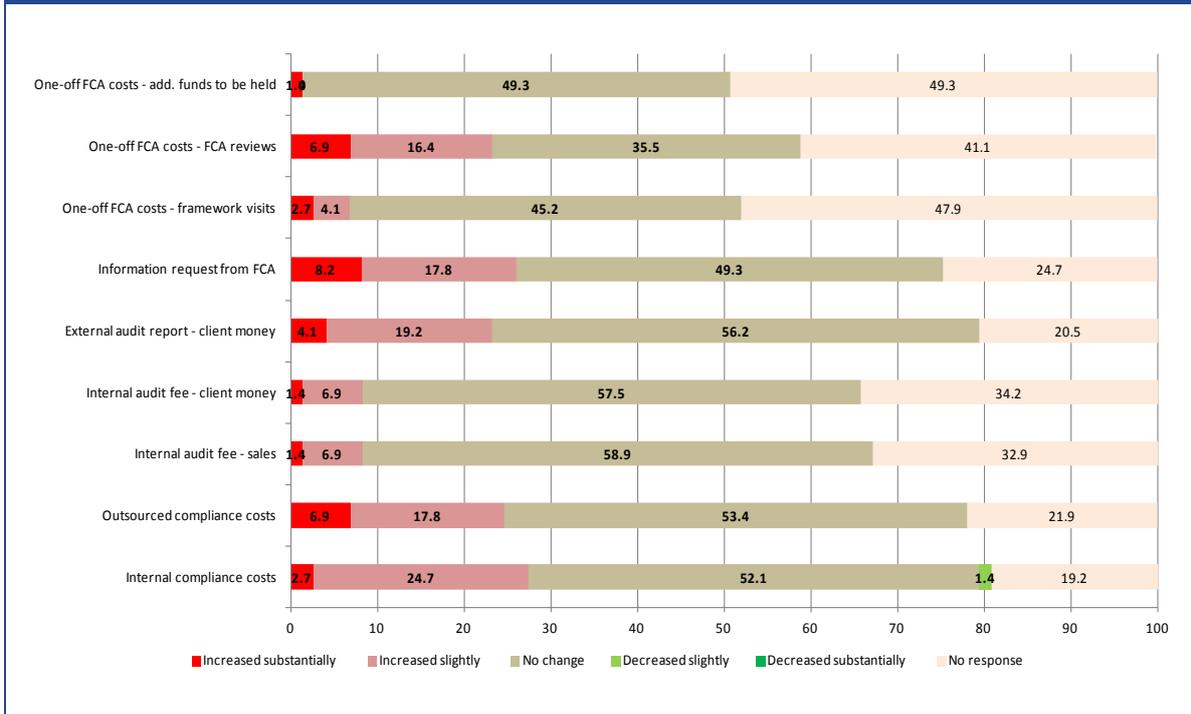
**Figure 8: Percentage of survey respondents reporting an increase in indirect regulatory costs by type of indirect regulatory costs**



Source: London Economics analysis of BIBA survey of UK insurance brokers

Moreover, in the case of most types of indirect costs, an absolute majority of survey participants are of the opinion that indirect costs have not changed recently (Figure 9).

**Figure 9: Evolution of indirect regulatory costs by type of indirect regulatory cost – percentage of survey respondents**



Source: London Economics analysis of BIBA survey of UK insurance brokers

## Annex 1 List of organisations consulted

Table 2: Source of information		
Country	Direct costs include annual fees payable to the following institutions	Source of information
Australia	Australian Securities & Investments Commission (ASIC)	National Insurance Brokers Association of Australia (NIBA)
Belgium	Financial Services and Markets Authority (FSMA)	
Bermuda	Bermuda Monetary Authority	Bermuda Monetary Authority
Denmark	Danish Financial Supervisory Authority	Finanstilsynet
Finland	Finnish Financial Supervisory Authority (FIN-FSA)	Finnish Insurance Broker Association (SVAM)
France	L'Autorité de contrôle prudentiel et de résolution (ACPR)	Chambre Syndicale des Courtiers D'Assurances (CSCA)
Germany	No fees payable	Verband Deutscher Versicherungsmakler (VDVM)
Hong Kong	Hong Kong Confederation of Insurance Brokers	Hong Kong Confederation of Insurance Brokers
Ireland	Central Bank of Ireland	Professional Insurance Brokers Association (PIBA); Irish Brokers' Association (IBA)
Italy	Instituto per la Vigilanza Sulle Assicurazioni (IVASS)	Instituto per la Vigilanza Sulle Assicurazioni (IVASS)
Japan	Insurance Ombudsman Association	Japan Insurance Brokers Association
Korea	No fees payable	The Korean Insurance Brokers Association
Luxembourg	Commissariat aux Assurances	Association Luxembourgeoise Des Intermediaires Professionnels D'Assurances, (ALUPASS)
Netherlands	Authority for the Financial Markets (AFM)	Adviseurs in Financieel Zekerheid (ADFIZ)
New York state	Department of Financial Services	Department of Financial Services; The Council of Insurance Agents & Brokers (CIAB)
Norway	Financial Supervisory Authority of Norway	Norwegian Association Of Insurance Brokers
Ontario province	Financial Services Commission of Ontario	Insurance Brokers Association of Canada (IBAC)
Portugal	Instituto de Seguros de Portugal (ISP)	Associação Portuguesa dos Produtores Profissionais de Seguros (APROSE)
Singapore	Monetary Authority of Singapore	
Spain	N/A	Asociación Española de Corredurías de Seguros (ADECOSE)
Sweden	Swedish Supervisory Authority of Norway	Swedish Insurance Brokers' Association (Sfm)

Switzerland	Swiss Financial Market Supervisory Authority (FINMA)	Swiss Insurance Brokers' Association (SIBA)
United Kingdom	Financial Conduct Authority (FCA), Financial Ombudsman Service (FOS), Financial Services Compensation Scheme (FSCS) & Money Advice Service	FCA fee calculator

Source: London Economics

**Table 3: Direct costs of regulation for three firm sizes across countries in €**

Country	Firm S		Firm M		Firm L	
	(€)	(%)	(€)	(%)	(€)	(%)
Australia	159	0.053	159	0.00318	159	0.000159
Belgium	300	0.1	1800	0.036	53000	0.053
Bermuda	1,041	0.347	1,041	0.02082	1,041	0.001041
Denmark	1,200	0.4	20,000	0.4	400,000	0.4
Finland	1,540	0.513	6,400	0.128	181,000 <sup>1</sup>	0.181
France	150	0.05	150	0.003	150	0.00015
Germany	0	0	0	0	0	0
Hong Kong	1,905	0.635	12,190	0.2438	38,857	0.038857
Ireland	475	0.1583	24,000	0.48	24,000	0.024
Italy	520	0.173	4,280	0.0856	8,280	0.00828
Japan	718	0.2393	718	0.01436	718	0.000718
Korea	0	0	0	0	0	0
Luxembourg	4,000	1.33	4,000	0.08	4,000	0.004
Netherlands	1,702	0.5673	7,862	0.15724	60,495	0.060495
New York state	89	0.0297	889	0.01778	296,296	0.296296
Norway	200	0.07	5,256	0.10512	N/A <sup>2</sup>	N/A
Ontario province	326	0.1087	326	0.00652	326	0.000326
Portugal	400	0.133	3,500	0.07	5,000	0.005
Singapore	4,118	1.3727	4,118	0.08236	4,118	0.004118
Spain	0	0	0	0	0	0
Sweden	674	0.2247	6,742	0.13484	224,719	0.224719
Switzerland	244	0.0813	244	0.00488	244	0.000244
United Kingdom	3,597	1.199	44,279	0.88558	866,576	0.866576

Notes: Firm S: A small firm with 3 general insurance intermediaries and revenues from insurance intermediation of €300,000; Firm M: A medium firm with 30 general insurance intermediaries and revenues from insurance intermediation of €5 million; and Firm L: A large firm with 1000 general insurance intermediaries and revenues from insurance intermediation of €100 million. The cost figures do not include the costs of any professional insurance that insurance broker firms may be required to have.

Source: London Economics

<sup>1</sup> Insurance broker firms of this size do not currently exist in Finland; hence, the direct cost is an extrapolated figure.

<sup>2</sup> Insurance broker firms of this size do not currently exist in Norway. Due to the dynamic fee structure it is not possible to determine a hypothetical direct cost for a large firm.



71-75 Shelton Street, Covent Garden  
London WC2H 9JQ, United Kingdom  
[info@londoneconomics.co.uk](mailto:info@londoneconomics.co.uk)  
[londoneconomics.co.uk](http://londoneconomics.co.uk)  
[@LondonEconomics](https://twitter.com/LondonEconomics)  
+44 (0)20 7866 8185