

LITTLEJOHN

# brokingbusiness

The newsletter for  
insurance brokers

**ISSUE 10**  
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## **Bridging the IT knowledge gap**

Do your systems work for *you*?

## **Financial crime**

How to minimise the risk

## **Premium finance**

Is it time to take control?





## Welcome to Broking Business

The first two listed categories at this year's UK Broker Awards were the E-business Award and the Technology Award. That says quite a bit about priorities for the sector. Among other qualities the judges were looking for evidence of 'greater efficiency, better customer service, lower error rates and effective implementation within agreed budgets and timetables'.

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In these competitive times brokers are snatching any opportunity to improve efficiency and service. So if you weren't one of the prizewinners, you may find our advice on bridging the IT knowledge gap extremely useful.

The FSA is not known for its leniency. And firms that fall short in their systems and controls to fight financial crime can expect stiff penalties. In this issue we look at ways of minimising your vulnerability. That means checking employees, customers and agents – as well as IT operating systems – and not underestimating the importance of training.

Tired of being at the beck and call of premium finance providers? One solution may be to take on the service yourself. Find out more in our article opposite.

We're always interested in your views on the newsletter, so please don't hesitate to get in touch.



## In Brief

**John Needham** is a partner in the firm's financial services division, specialising in insurance. He's also a member of the Littlejohn broking team, which caters for the needs of insurance brokers and other intermediaries.

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### FSA strict on client money rules

The FSA has recently published the results of its summer review of client money handling at firms. The findings are broadly positive, with about two-thirds showing good awareness of the Client Assets (CASS) rules. Our own experience over the last six months suggests that where firms aren't interpreting the rules correctly, the FSA is taking a hard line.

There are some useful tips on client money on the FSA website at [www.fsa.gov.uk/smallfirms/your\\_firm\\_type/gi/financial\\_management/improvement.shtml](http://www.fsa.gov.uk/smallfirms/your_firm_type/gi/financial_management/improvement.shtml)

### Marine premium financing facility sets up

There is a new premium finance service on the market for the marine sector. To the best of our knowledge it is the first of its kind, offering premium financing for marine risks in multi-currency and multi-jurisdictions. See [www.ipfl.info](http://www.ipfl.info) for details.

### 'Place of supply' VAT update

From 1 Jan 2010 the basic 'place of supply' rule is set to change for business to business supplies of services. This means an extension of the reverse charge regime to cover the majority of products and services – excluding insurance services – supplied by EU firms to UK businesses, where the same services would have been subject to VAT in the UK.

Firms should check their non-insurance supplies, such as professional fees, to make sure their reverse charge reporting is up to date. Those supplying non-insurance services to EU businesses may also need to start producing sales lists, including details of each customer's VAT registration and country code. This may have implications for accounting systems.

*For more information about VAT, please contact Littlejohn's Indirect Tax partner, Bob Jones, on 020 7516 2295 or email [rjones@littlejohnllp.com](mailto:rjones@littlejohnllp.com)*



## Premium finance: a change of approach?

Recent developments in the market are presenting brokers with new opportunities to take control of premium finance. Diana Hurrell comments.

**Diana Hurrell** has worked with Tactica Premium Finance since the formation of the company. She has a background with both insurers and brokers, and particular experience of new ventures and initiatives to improve profitability and service.

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Premium finance (PF) has typically been a low priority for insurance brokers. At worst they've seen it as a necessary evil; at best as secondary to their main business of broking. But there are now commercial reasons for brokers to reconsider their approach to this area of their business and to use it as a strategic tool to improve profitability and ease client management.

Before the banking crisis, brokers had a fair amount of freedom to select a PF provider. Most would opt for one of the major players and have a second tier company alongside to keep their options open. But now that so many smaller players have been acquired by larger firms, brokers are expressing concern about the limited choice and, with that, a shift in attitude among remaining players.

### Negative trends

The first trend is clients being refused finance despite having been on the books for years – and with excellent payment records. This leaves the broker in an awkward position and at risk of losing business.

Providers are also accused of delaying tactics in booking business. This adds to the brokers' administrative burden and means they may be due to pay the insurer before they've received their money from the PF provider, causing negative cashflow and ultimately serious funding problems.

Many brokers fear there's now too much power in the hands of a few. They also report changes to terms and conditions which further favour the PF provider. The time must be right for a genuine alternative.

*“Many brokers fear there's now too much power in the hands of a few.”*



## Bridging the IT knowledge gap

Commercial and market pressures are forcing brokers to handle more and more of their business electronically. But can you rely on your IT systems? Ian Singer offers guidance.

**Ian Singer** is head of Littlejohn's IT division. He regularly works alongside the broking team to provide IT assurance and consulting services to brokers.

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As the regulatory environment gets tougher, it's becoming increasingly important for brokers to be able to depend on their IT systems and people. So much so that their excellence – or otherwise – can be a key differentiator among competitor businesses.

But all too often brokers suffer from problems with the quality, cost-effectiveness and reliability of their IT. These are frequently made worse by an inability of senior management to grasp the root causes of the problems and act accordingly. This knowledge gap may lead to poor investment decisions, lack of confidence in the IT service or, in extreme cases, decision paralysis.

### IT versus business

One reason for the knowledge gap is that, in the (slightly modified) words of relationship guru John Gray, IT people are from Mars and business people are from Venus. Brokers are usually run by self-confident individuals with strong communication and business skills. Many IT professionals are, dare we say, lacking in one or more of these characteristics. It's hardly surprising therefore that the two parties find building effective relationships as difficult as John Gray's intended audience.

### Need versus knowledge

Secondly, broking businesses of all sizes have quite sophisticated IT needs. Despite this they are unlikely to have either the budget or the breadth of IT skills needed to select, implement and support complex systems and infrastructure for different business areas. This means senior managers often end up turning for advice to the very source they may not fully understand – and which experience has taught them not to trust – the IT experts.

*“One reason for the knowledge gap is that, in the (slightly modified) words of relationship guru John Gray, IT people are from Mars and business people are from Venus.”*

### Inconvenience or crisis?

Though this knowledge gap may be seen as just an inconvenience by many brokers, certain pressure points can turn an inconvenience into a crisis. For example, business expansion or acquisition may require more complex functionality or the processing of higher data volumes than the current broking system can handle. This kind of problem is rarely resolved adequately. In a typical case the current system isn't changed or adapted as necessary, so the broker puts up with delayed or inaccurate management information. In an extreme case, the FSA can force a system change within a prescribed timeframe. Or perhaps the system is replaced but the IT function falls down on product selection or project implementation.

If you think none of this applies to you, consider whether you have ever suffered from: failed or poor projects; poor quality of data; budget variances; lack of confidence in your IT resources; unhappy system users; unhappy IT staff; unreliable systems; or poor supplier relations. These are all symptoms of an IT malaise. The more of them that apply, the less effective your IT service is likely to be for the business.

### Simple steps

So how can you prevent your company suffering in this way? Here are some simple guidelines for interacting with your IT personnel and assessing their proposals.

#### 1. Strategy

- Ensure that the company has a clear business strategy supported by an IT strategy that clearly defines what projects will be undertaken when
- When assessing a project proposal, ask whether it is either adding value or mitigating a risk. If it is doing neither, do not proceed
- If it ain't broke, don't fix it. There will be plenty of other opportunities to invest your time and money
- Systems should work in spite of people not because of them. Any key business process that relies on an individual should be replaced with a standard, easy-to-understand alternative

## 2. Communications

- Ensure that the IT department has a clear reporting line. Brokers tend to be run by strong-willed individuals and this tends to lead to conflicting priorities and opinions for the IT department to respond to. There needs to be one clear voice that is ultimately responsible for the IT service
- Project proposals should always offer options, each with clear implications and costs. One consideration should always be 'If we do nothing, what happens?'
- Never proceed with a project if you don't fully understand what is being proposed
- Any proposal should explain the problem it is intended to solve, making clear the benefits to the business (rather than just the technical solution)

## 3. Skills

- Before embarking on any project, define the skills needed to ensure its success. Check that each of those skills can be delivered by an appropriate resource
- In particular, the following skills must be delivered by an experienced, competent resource (either internally or externally):
  - system selection
  - project management
  - management reporting solutions
  - software development
- Always seek independent advice if you are unsure of a decision you are being asked to make, or would just like a second opinion

### More advice

If you're struggling to engage successfully with your IT service, chances are the situation will only deteriorate if you do nothing. Applying the ideas above may be a starting point. And, of course, you can always contact us for further advice.



## Financial crime: don't take your eye off the ball

The prevention of financial crime – whether money laundering, fraud and dishonesty, or market abuse – remains high on the FSA's agenda. John Gregson tells general insurance (GI) brokers what to consider.

With 30 years' experience in the general insurance industry, **John Gregson**, CEO of Advantage Broker, currently advises firms on their FSA compliance. John was a Special Advisor to the FSA from 2006 to 2009.

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Not only is financial crime one of the FSA's four statutory objectives, it also wreaks tremendous social havoc. Now the FSA wants to see evidence that firms are acting proportionately to reduce their financial crime risk, and that includes ensuring that the people who run them act with integrity.

### Assessing 'people' risks

The greatest financial crime risk is posed by people – whether they are employees, customers, suppliers or agents.

GI brokers should carry out appropriate pre-employment checks to establish the fitness and propriety of those who will be put in positions of trust. This is not always restricted to senior personnel. Account handlers can be put in charge of high net worth affairs and therefore handle sensitive information of value to thieves.

Ensure that you 'know your customer' before you open an account. This is especially important for 'politically exposed persons' (or PEPs). People in this group are a particular risk if they hold a position of influence in countries known for bribery and corruption. It's also important to perform similar checks on your agents and other introducers, especially if you are paying them higher-than-normal commissions. This acts as a warning light to the FSA, so you need to satisfy yourself that those monies are not being used to further financial crime – in order, in turn, to be able to respond to an FSA enquiry on the subject.

### IT, products, claims and cancellation

The IT operating environment in your firm is another consideration. It may, unwittingly, facilitate financial crime. You should check that your IT systems are sufficiently secure and that management is not distracted by other matters to notice suspicious transactions or behaviour. Ask yourself whether the products you sell could be used to further financial crime. If in doubt, consider whether the insurance arrangements requested 'make sense', given all the circumstances.

Other areas in which care is required include the claims process and early cancellation of policies. Both present opportunities for financial crime. For example, proceeds of crime may be used to pay premiums for insurance policies followed by the submission of claims or cancellation of the policies. Both of these subsequent actions are designed to legitimise or launder the funds which were illegally obtained in the first place.

### The importance of training

Comprehensive training programmes should form a key part of a firm's financial crime risk mitigation strategy. These should convey the firm's expectations in terms of employee behaviour, including dealings in the market. To help achieve correct behaviour we recommend introducing a code of market conduct and making available a 'whistle blowing' line.

*“Ensure that you 'know your customer' before you open an account. This is especially important for 'politically exposed persons' (or PEPs).”*

**CEO 10-point checklist**

- |   |  |
|---|--|
| ✓ | My firm's pre-employment checks are proportionate and appropriate to the level of responsibility of the applicant concerned          |
| ✓ | My firm's 'Know your customer' checks have been designed to mitigate the regulatory risks our customers pose to our business         |
| ✓ | We can demonstrate that we have considered how our agents and wholesalers use the commission payments we make to them                |
| ✓ | I personally review my firm's data security protection measures at appropriate intervals   |
| ✓ | I ensure our training programmes include financial crime awareness   |
| ✓ | The culture of my firm is clear about what I expect of employees at all levels in terms of financial crime awareness                 |
| ✓ | My firm has established a code of conduct to be followed by directors and employees at all levels                                    |
| ✓ | I have allocated accountability for financial crime risk control to a senior manager   |
| ✓ | When appointing anyone to a control function I will satisfy myself of their suitability before applying to the FSA for authorisation |
| ✓ | Our financial crime mitigation techniques are fully documented in our procedures manual  |

*“Financial crime risk remains high... In recognition of this we are maintaining the increased level of resources deployed in 2007/08, led by our Financial Crime and Intelligence Division.”*

FSA Business Plan 2009

Finally, the FSA expects firms to take this subject seriously. The appointment of a senior individual, accountable for the design and implementation of financial crime mitigation techniques, is a recommendation for GI brokers under the Senior Management Arrangements, Systems and Controls (SYSC 6) section of the FSA Handbook.

It is also vital to establish the competency of approved persons. For new recruits, it is advisable that you satisfy yourself of their suitability before the call from the FSA to interview the applicant under its Supervisory Enhancement Programme. It's far better that you discover any problems first! For existing personnel, competency testing might form part of the annual appraisal.

All of these risk mitigation and management techniques should be appropriately documented.

**Enforcement and fines**

Since 2006, the FSA has imposed fines of over £11 million for failures in firms' systems and controls to prevent financial crime. It is, of course, a requirement to declare incidents of financial crime under Principle 11. But you should remember that this only applies if a crime has actually been committed. If you are in any doubt, consult your legal advisor before proceeding.

*“We must not lose sight of the fact that the purpose of our financial crime objective is to help in the fight against crime; crime that creates real and serious social harm like drug-dealing, people trafficking, fraud, market abuse – and terrorism.”*

Sir Callum McCarthy, former FSA Chairman

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Littlejohn is an independent, top 30 firm of chartered accountants and business advisors. A leader in providing accountancy and audit services to the London insurance market, the firm has operated in the sector for over a century. Littlejohn's specialists help clients to overcome the challenges faced by the industry through a comprehensive commercial and technical understanding of its workings, and a high level of partner involvement. Clients range from owner-operated firms to some of the biggest names in the broking world.

Visit our website at [www.littlejohnllp.com](http://www.littlejohnllp.com) for a downloadable version of this newsletter and past editions.

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Strong relationships, substantial partner involvement, honest answers and intelligent solutions from a dynamic team of accountants and advisors. **We work with you to deliver the best for your business.**

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