

Chris Woodburn, Chief Executive of GISC, talks to Mick James about the winding-up of the Council and the future of insurance regulation

where next for general insurance regulation?

■ On 13 January this year, the General Insurance Standards Council (GISC) ceased to operate, and its regulatory duties were taken over by the Financial Services Authority (FSA). The move pretty much marks the end of meaningful self-regulation in the financial services industry, and will inevitably lead to increases in both costs and bureaucracy.

Given that GISC has been doing an effective job of regulating the industry for the past five years, it's hard to see why this apparently successful experiment in self-regulation has not been allowed to continue. But as Chief Executive Chris Woodburn explains, the body has had an axe hanging over it for most of its short existence.

However, when GISC was set up in 1999, the Government was fully behind the concept of self-regulation. "It was prompted by the Government," he says, "They said this is the way that general insurance should be regulated." Woodburn, who had been heading the Securities and Futures Authority, was headhunted to create the new regulatory body from scratch with no government subsidy, just loans of £2m of seed-money.

the beginning

The idea was to unify such regulation as already existed, and then draw unregulated areas of the insurance industry in. "It was a bit of a mish-mash," says Woodburn.

"Lloyds did some regulation, there was the Insurance Brokers Registration Council (IBRC), but that only covered people who wanted to call themselves insurance brokers, and the Association of British Insurers employed Price Waterhouse to monitor those intermediaries that didn't come under the IBRC scheme. None of these things worked as well as they might have done."

By July 2000 GISC was ready to open its doors as a regulator, fully funded by member subscriptions. To give itself some teeth, it tried to introduce an element of compulsion with a rule that members could only deal with intermediaries that were also members of GISC. "This rule had to be cleared with the Office of Fair Trading (OFT), and a lot of work went into making that pitch to the OFT," says Woodburn. "The Director General ruled that the rule was 'not offensive' as regulation was not an economic activity."

the Government's indecision

However, this decision was overturned in September 2001 after a joint appeal by the Association of British Travel Agents and the Institute of Insurance Brokers. Nevertheless, Woodburn believes GISC would have succeeded in getting an exemption from the OFT. "That decision wasn't fatal," says Woodburn. "What was fatal to our cause was the Government changing its mind and deciding regulation of the industry should pass to the FSA."

This sea-change in government thinking was prompted by the EU Insurance Mediation Directive, which stated that the insurance industry should be regulated by a 'competent authority'.

To this day Woodburn is baffled by the decision, although he had always suspected that statutory regulation would eventually happen. "The fact was not surprising but the speed was," he says. "Legally there was no problem with a body like GISC being a 'competent authority', and we were assured there was no implicit criticism of our work."

industry support

Nevertheless, barely 18 months after starting work, GISC had to begin putting itself out of business. "We wanted to cooperate with the FSA and do everything to achieve a seamless transition, and we have fulfilled that agreement and done a good job," says Woodburn. "It's been hard work, but not as difficult as it might have been. The insurance industry has been supportive and wanted GISC to be in as influential a position as possible as far as the new world of statutory regulation was concerned."

And in the meantime, of course GISC also had to fulfil its role as regulator of the industry, which it has done both cheaply and effectively. With over 6,400 members, it has achieved a substantial penetration of the general insurance industry, and has dealt



with over 30,000 complaints and consumer enquiries over five years. Its running costs of £7m a year are entirely funded by member subscriptions, which are turnover-based and capped at £100,000 a year, with many paying the minimum of £200.

"It's only in the last couple of months that the practicalities have become difficult," says Woodburn. "The main difficulty has been maintaining staff morale and giving people a reason to come into the office."

All GISC staff, including Woodburn, are being made redundant. A small core staff will stay on until March winding down the accounts and clearing up outstanding complaints. "It's not a merger, there's no TUPE transfer involved," says Woodburn. "I was disappointed that the FSA weren't prepared to accept our people."

GISC's influence continues

Nevertheless, the influence of GISC will persist in the new world of statutory regulation. "Our experience of regulation has influenced to quite a large extent the way the FSA has developed its ideas, and I can see quite a lot of strands of GISC in their handbook," says Woodburn. "The difference is that ours was 46 pages long and theirs is four feet high. That's the difference between a principles-based approach and a statutory scheme."

Woodburn echoes the criticism made by many in the industry that once again Britain has 'gold-plated' an EU directive, technically

following the rest of Europe but in fact creating a much more onerous regime. "In the rest of Europe they take the directive and put it on the shelf," he says. "What we do is weave it into national legislation."

how prepared is the industry for the FSA?

Although GISC has done a lot of the groundwork for the FSA in getting the industry used to regulation, there is a widespread fear that the industry as a whole is unprepared for the full weight of statutory control. A survey by information solutions provider Docucorp found that 90% of senior insurance managers felt firms were not ready for the FSA. Although there are exemptions for travel agents, many intermediaries who provide insurance as an adjunct to another service will now be regulated. Already a number of credit card companies such as Barclaycard have abolished free benefits such as purchase protection insurance rather than face regulation.

"It does bring us to the question of whether statutory regulation is suitable for the general insurance industry," says Woodburn. Coming from a securities background, he says he was surprised by the low levels of general business acumen in the industry. "They were confident they could do the business but there was a lack of normal business controls," he says. "There was quite a lot of low-level non-compliance, but it wasn't endangering the public."

Rather than merely imposing a set of rules and punishing transgressors, Woodburn saw GISC's role as one of reaching out to the industry and helping it sharpen up its act. "It's a very disparate industry and our goal was to get them in the pen and start raising standards, to bring the general business practitioner up to a higher level," he says.

the future

Now the industry faces a regime which will be both stricter and more costly. Some commentators have estimated that the new regime will add an average of £3 to the cost of an insurance policy, and it is widely expected that the FSA will seek to announce its arrival on the insurance scene by making a few well-publicised examples.

As for Woodburn, he is left in the painful position of having huge experience of making self-regulation work in the financial world, when most of that world is lost irrevocably to statutory schemes. Bodies which still regulate themselves should be alert to the risk that they too will fall victim to the perceived need for regulation to be imposed by government.

"I can't say it's wrong, but I just can't see the imperative," says Woodburn. "Voluntary regulation can work." ■

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