Response From
Brokers Ireland

To

Consultation Paper
Funding the Investor Compensation Scheme

Introduction

This response to The Investor Compensation Company Limited (ICCL) Consultation Paper on Funding the Investor Compensation Scheme sets out the views of **Brokers Ireland. Brokers Ireland** is a co-operative structure between the Irish Brokers Association (IBA) and the Professional Insurance Brokers Association (PIBA) who together represent over 90% of full time professional brokers in the Irish market, As Fund B of The Investor Compensation Company Limited is intended to meet the claims of eligible investors of Authorised Advisors authorised under the IIA, Multi-Agency Intermediaries authorised under the IIA and Insurance Intermediaries registered with the Central Bank of Ireland under the European Communities (Insurance Mediation) Regulations 2005 we have restricted our response to the elements of the Consultation Paper that relate to Fund B.

We recognise that it is a principle of the **INVESTOR COMPENSATION ACT, 1998** that the cost of financing the ICCL scheme should be borne by investment firms. We recognise the Cascade Model adopted by the ICCL. The members of Brokers Ireland view this fund as a necessary part of market supervision and consumer protection and make annual contributions accordingly. In addition to this Fund customers of Retail Intermediaries are also protected through Central Bank supervision, operation of the office of the Financial Services Ombudsman, Professional Indemnity Insurance and the requirement for the annual audit of accounts of IIA authorised intermediaries

We welcome the opportunity to participate in this consultation process and respond in the Template provided in Section 7 as requested.

PIBA

Irish Brokers association

Name of Respondent Firm/ Body/Organisation:			Brokers Ireland - Brokers Ireland is a co-operative structure between the Irish Brokers Association (IBA) and the Professional Insurance Brokers Association (PIBA)	
Question No.	**Question**	**Yes / No**	**Comment**	**Paragraphs no.'s referenced in your response:**
1	Do you agree with the target Cascade Capacity for Fund A?			
2	Do you agree with the target Cascade Mix for Fund A?			
3	Do you agree with the target Cascade Capacity for Fund B?	Yes	Bearing in mind the level of compensation per eligible investor is 90% of money lost up to a maximum of €20,000 and the fact that Fund B has had negligible claims in comparison with Fund A so we believe that the target of €35 million (inclusive of €10 million excess of loss insurance cover) is more than sufficient.	
4	Do you agree with the target Cascade Mix for Fund B?	Yes	No comment.	
5	Do you support the continued placement of Excess of Loss Insurance for Fund A at the current level of €100 million above an excess of €15 million?			

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Question No.	**Question**	**Yes / No**	**Comment**	**Paragraphs no.'s referenced in your response**
6	Do you support the continued placement of Excess of Loss Insurance for Fund B at the current level of €10 million above an excess of €15 million?	Yes	Brokers Ireland support the placement of Excess of Loss Insurance for Fund B, but we feel that the excess amount of €15 million is very high considering the nature of the firms contributing to Fund B and the claims history on the fund to date.	
7	Do you support the current Inter-fund borrowing arrangements?	Yes	Brokers Ireland agree with the current borrowing arrangements and agrees with the principles in relation to inter-fund borrowing in the event of an exceptional default arising subject to the maximum amount of borrowing being one third of the funds and subject to repayment within 3 years.	
8	Do you support external borrowing to supplement the cascade capacity?	Yes		
9	Do you support the proposed quantum of borrowing?	Yes		
10	Do you support the penalization of Fund A participant firms that continue to pay by cheque?			

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Question No.	**Question**	**Yes / No**	**Comment**	**Paragraphs no.'s referenced in your response:**
11	Do you support the penalisation of Fund B participant firms that do not avail of the efficient Direct Debit collection method?	No	Rather than penalizing firms that do not pay by Direct Debit, we would suggest that Firms who choose to pay by Direct Debit should receive a 5% reduction in their levy. This will have the effect of encouraging firms to pay by Direct Debit without penalizing those that do not pay by DD. In view of the current level of funding we believe this discount can be allowed without compromising the fund whilst encouraging payment in a more efficient way.	
12	Do you believe the assumptions set out in paragraph 66 are reasonable? – Please state your reasons.			
13	Do you support the implementation of Proposal A: 1 or A: 2?			

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Question No.	**Question**	**Yes / No**	**Comment**	**Paragraphs no.'s referenced in your response:**
14	Do you believe the assumptions set out in paragraph 76 are reasonable? – Please state your reasons: **Failures**: **Reduction in the numbers of authorised firms:**		Brokers Ireland has the following comments in relation to the following assumptions: **Failures**: In view of the experience of Fund B to date and the other layers of protection referenced in the introduction it is reasonable to assume that there will be no significant failures or calls on Fund B to provide compensation **Reduction in the numbers of authorised firms:** *No material reduction in the number of authorised firms is experienced annually beyond the withdrawal of the following number of firms:* ➢ *80 level 1 firms* ➢ *20 level 2 firms* Central Bank figures show that retail Intermediary figures have declined as follows over the past three years. 2012 - 3238 2013 – 2964 2014 – 2822 This year on year decline is greater than what is outlined in above assumption. The Central Bank appears to be actively seeking out firms that are non-compliant. Revocation is one of the options being taken up by these firms. Above estimates also seem low in that context.	

14	…continued. Do you believe the assumptions set out in paragraph 76 are reasonable? – Please state your reasons. **Operating costs**: Bad Debts: **Participant firm that do not pay by direct debit will pay an additional 5% levy surcharge.**		...continued Brokers Ireland has the following comments in relation to the following assumptions: **Operating costs**: Over Fund A (€1.2m) & Fund B (€.7M) = €1.9m We would like to see more clarity around the calculation of the €1.9 m and the rationale for the 63/37 allocation of costs to enable us to affirm assumptions. **Bad Debts:** In view of number of firms who are focus of Central Bank investigation for noncompliance the assumption in relation to bad debts seems low at €20K **Participant firm that do not pay by direct debit will pay an additional 5% levy surcharge**: When a levy is decided, it is unfair to subsequently penalize when payment is made on time irrespective of the method of payment. We would suggest that rather than penalizing firms that do not pay by Direct Debit, we would suggest that Firms who choose to pay by Direct Debit should receive a 5% reduction in their levy. This will have the effect of encouraging firms to pay by Direct Debit without penalizing those that do not pay by DD.	
15	Do you support the implementation of Proposal B:1 or B:2		Brokers Ireland support Proposal B:2	

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