Insurance Times Investigates The insurers bankrolling brokers

by Ellen Bennett

- Insurers are lending huge sums to brokers for favourable investment returns
- Deals are often veiled in secrecy and many are bound by confidentiality clauses
- The FSA currently has no arrangements in place to monitor potential conflicts of interest caused by these loans

Secret loans uncovered

Loans between insurers and brokers are nothing new. But they are becoming increasingly common as small brokers find it harder to borrow money from banks, and insurers look for better investment returns than they could get on the open market.

Although most insurers distance themselves from the loans, saying they make them on a very selective basis, there are clear benefits. The commercial boss of one major insurer admits: "If I could give loans to brokers and get a rate of 5%-6%, I would take it at the moment, as they're pretty secure businesses, and that's a better rate than I could get elsewhere."

Insurers also have the comfort of working closely with the borrowing broker, keeping a close eye on their investment, and understanding their business in a way that banks wouldn't.

But is there a more sinister side? Insurer loans fall into two main categories. The first is a standard commercial loan, with interest rates in line with the banks and the usual terms and conditions. "There are so many belts and braces that many people walk away," says one broker.

'Borrowing from insurers always has strings attached. There are advantages, but there's a payment to be made in moral terms' A broker

The second type is sometimes called a 'soft' loan, where an insurer lends a broker money to help finance a specific acquisition. Often this is on the understanding that the broker will place a part of the acquired business with the insurer. Interest rates are usually more attractive than anything on the open market.

Cynics question how such deals serve the interests of customers. One broker warns: "Borrowing from insurance companies always has strings attached. There are advantages, but there's another payment to be made in moral terms."

When an insurer takes a stake in a broker, both parties must jump through regulatory hoops to prove the deal will not affect the broker's ability to act as independent agent of the customer. But this is not the case with loans, which are also often governed by confidentiality clauses. None of the insurers contacted for this investigation were willing to disclose the names of all the brokers to whom they had loaned money.

Lack of interest from the FSA

Aviva is one of the most active insurers in this area. Intermediary and partnerships director Janice Deakin met with regulators three years ago, to get approval. "Before we started doing anything, we sat down with the FSA and took them through our plans," she says. "The main thing is that the loan agreement and the trading agreements have to be at arm's length."

While Aviva has been proactive in dealing with the FSA, the regulator itself seems to be more laissez-faire. It does not approve the loans, and has no arrangements in place to monitor their impact on trading. When initially contacted by *Insurance Times*, the FSA merely repeated principles surrounding treating customers fairly and conflicts of interest. Asked to look into the matter more fully, its press officer later said: "We don't approve loans, which means I can't answer many of your questions. In terms of how we ensure such loans don't impinge on day-to-day business, this is via our day-to-day supervision."

No doubt the majority of insurer/broker loans are made for sound reasons. But, given the scrutiny that insurer-owned brokers face, it is surprising that the FSA seems barely aware that independent brokers are borrowing large sums of money from the insurers they place business with, without disclosing the deals.

Talking points ...

- Insurers frequently make loans to the brokers they do business with. Could this affect brokers' independence?
- Should the FSA require brokers to disclose insurer loans to the regulator and clients?
- Is it in a broker's best interests to borrow money from an insurer, or is it an option of last resort, given tighter credit from the banks?

Aviva

Aviva is open for business when it comes to lending to brokers

The UK's largest insurer is active in making loans to brokers, with 10-15 now in play. It also has an arrangement with Macquarie Bank, whereby it will recommend brokers and offer some surety, resulting in better terms and conditions.

Intermediary and partnerships director Janice Deakin says: "We have tended to support people we already have significant relationships with, where it's really important for us they stay independent." She adds that Aviva would rather make a loan than take a stake in a broker, but says: "We're not out there soliciting them."

Loan to Jelf

Aviva loaned money to Jelf when it refinanced the business away from RBS.

Both Jelf and Aviva declined to comment, but a third party with knowledge of the deal said: "Jelf was worried about its position with RBS, so it went to Aviva to say 'help us out here'."

At least two other insurers are believed to have lent money to Jelf.

RSA

RSA's building relationships

RSA is one of the most active insurers in this space – yet has refused to comment on the subject. But, talking recently about its results, UK chief executive Adrian Brown said: "We have done some loans with brokers this year on a commercial rate … It has been with those brokers we think we can build the relationship with."

Loan to CCV

RSA loaned money to CCV for its acquisition of BIB Group in 2010. Both declined to comment, but a third party with knowledge of the deal said: "RSA really wanted that business and was prepared to help CCV buy it so that it could get the underlying premium volume." Earlier this year, Brown said: "We are absolutely open for those sorts of loans where we think there's a common interest."

Loan to Oval

RSA's loan to Oval was first revealed by *Insurance Times* in September 2009.

The insurer also has a stake in the consolidator and a seat on its board. The loan was made to fund acquisitions and is thought to be around £10m.

RSA and Oval have consistently declined to comment on their financial relationship.

THE BANKS THAT LEND

- **While credit from the banks in general has been drying up, some lenders have been quick to spot the opportunity in the broking market. Among them is Macquarie, which has made numerous loans – to brokers recommended by Aviva and on the open market.**

- **A Macquarie spokesman said: "With access to capital not widely available from traditional banks over the last three years, brokers instead turned to non-traditional funding sources, such as their insurer partners, for finance assistance. This enabled insurers to protect their relationships with key brokers, but gave rise to a number of issues for both the broker and insurer."**

- **The spokesman refused to confirm how many loans Macquarie had made, but said: "Since entering the UK broker market in 2007, Macquarie has consistently funded brokers with their strategic acquisitions."**

- **Other active lenders in the sector include Lloyd's, which backs a number of major brokers, Santander and Clydesdale.**

AXA

AXA is less involved since launching Bluefin

AXA has a small number of loans. But commercial chief executive Amanda Blanc says: "It's been a factor of AXA in the past, but less so since AXA bought distribution in the form of Bluefin. Our investment would be in our own distribution arm."

Loan to Castle Cover

One loan made by AXA was to personal lines broker Castle Cover, but this has since been paid back by Ageas, which acquired the broker in March. AXA's personal lines intermediary director Mike Keating said the insurer's number of loans in the market was "in the low single digits".

Allianz

Allianz has slowed activity

Allianz has a number of loans in the marketplace, although commercial managing director Chris Hanks says activity has tailed off recently. He says: "If you go back four years, there was a fair bit of it going on." A source said Allianz had made two relatively small loans in the past 12 months.

Loan to CBG

The insurer made a loan to Manchester-based broker CBG of around £1.1m for acquisitions in 2007-08. CBG said the loan has now been fully repaid, with the final £75,000 repaid this year. It was an interest-free loan.

A source said the loan was linked to an acquisition on the understanding that Allianz would win business – but that this did not happen.