Deregulating retail freight forwarding and storage insurance: summary of consultation responses and final Impact Assesment

February 2009

HM TREASURY

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Contents

1 Introduction

1.1 This document summarises the responses to HM Treasury's consultation[1] on removing certain retail insurance activities of freight forwarders (including removers) and storage firms from the scope of Financial Services Authority (FSA) regulation. The consultation was launched on 19 June 2008 and closed on 12 September 2008.

1.2 HM Treasury (HMT) is grateful to all those who responded to the consultation document and commented on the partial Regulatory Impact Assessment (RIA).

Proposed options

1.3 The consultation document and partial RIA outlined three options:

> option 1 would involve no change. Freight forwarders and storage firms extending 'open cover' insurance policies to include the goods of retail customers in exchange for a premium would remain regulated by the FSA;
>
> option 2 would remove from the scope of FSA regulation the practice of freight forwarders and storage firms extending 'open cover' insurance policies to include the goods of retail customers in exchange for a premium; and
>
> option 3 would remove from the scope of FSA regulation the practice of freight forwarders and storage firms extending 'open cover' insurance policies to include the goods of retail customers in exchange for a premium. HMT and FSA would also work with the relevant trade associations to ensure that they have in place suitable codes of practice that would minimise consumer detriment. This would include joining the Voluntary Jurisdiction of the Financial Ombudsman Service (FOS).

1.4 The consultation document made it clear that Option 3 was the Government's preferred option because it believed there would be a net benefit for industry and consumers.

Questions asked in the consultation document

1.5 The questions raised by the consultation document were:

> Do you have any evidence on the potential for consumer detriment arising from removing the practice of freight forwarders (including removers) and storage firms extending their all risk 'open cover' insurance policy, to their retail (private) customers, from the scope of FSA regulation?
>
> Do you think the risk of consumer detriment will be adequately mitigated by the introduction of the appropriate consumer codes?
>
> Do you have any views on the impact of the current requirement for FSA regulation upon the international competitiveness of the UK's freight forwarding sector?

[1] Deregulating retail freight forwarding insurance: a consultation, HM Treasury, 19 June 2008.

Should the Government's proposed approach be widened to include an exemption from legislation for other activities which are similar in nature to freight forwarding, and what are the arguments for doing so?

Do you have any comments on the partial Impact Assessment in Chapter 4?

Do you have any comments on the proposed extension to paragraph 50 of the Schedule to the Exemption Order?

1.6 Chapter 2 summarises the responses and Chapter 3 sets out the Government's conclusions and next steps.

2 Summary of responses

Responses to the consultation

2.1 Nine responses to the consultation were received from firms and representative bodies. A list of those responding to the consultation is attached at Annex A.

2.2 Subject to certain points discussed in the rest of this Chapter, all respondents were agreed that Option 3 (deregulation, together with Codes of Practice introduced by trade associations) represented the best way of moving forward. There was no support for Options 1 or 2.

Consultation Questions

Question 1 & 2: Consumer Detriment and Codes of Practice

2.3 Respondents agreed that the risk of consumer detriment was low, with many mentioning the low level of complaints prior to the introduction of FSA regulation and the fact that relatively few freight forwarders and storage firms are regulated by the FSA at present. Respondents also agreed that Codes of Practice and access to the voluntary jurisdiction of the FOS would help to minimise any detriment that might exist. Some noted that that the resulting position would represent an improvement on the pre-2005 position. This is because many freight forwarders have reacted to FSA regulation by adopting an 'extended liability' system to avoid authorisation costs. Under 'extended liability' a freight forwarder will take on greater responsibility for their customer's goods, which they then insure themselves against for a fee. As such there is no direct link between the individual and the insurer. Should there be any problems, the individual has no recourse other than the internal complaints procedures of the freight forwarder or taking action through the courts. An 'open cover' policy, on the other hand, passes on rights against the authorised insurer direct to the individual, providing a link to the FOS and the Financial Services Compensation Scheme (FSCS) in respect of those rights.

2.4 Respondents differed on how prescriptive the Code needed to be, with some stressing the need for the maximum possible degree of clarity, whilst others saw its value as a 'road-map' for the resolution of disputes, rather than something that needed to cover every possible contingency. One respondent asked whether the trade associations responsible for overseeing the implementation of the Codes would be answerable to the FSA. There was also a suggestion that the FSA could encourage insurers to provide guidance that freight forwarders and storage firms could pass on to their customers.

2.5 The Government notes the consensus that the risk of consumer detriment is low and the wide degree of support for a Code to supplement the contractual arrangements between freight forwarder and customer. The Government acknowledges the differences of opinion among respondents on the content of the Codes, but believes that an appropriate balance has now been struck between the need for clarity and flexibility. It notes also that, although the FSA will not be responsible for overseeing the implementation of the Codes, the FSA is content that the Codes incorporate appropriate FSA principles to ensure that firms take reasonable steps to ensure the customer is given appropriate information about a policy in good time.
The Government is content that the terms for the deregulation of retail 'open cover' insurance

have been met and that the proposed deregulation, together with the agreed Codes, will improve the position of consumers and reduce the risk of detriment. The Government will keep the legislation under review to ensure that this is the case.

Question 3: Competitiveness

2.6 Respondents were generally agreed that the current requirement for FSA regulation had an adverse impact on UK competitiveness, as few of their international competitors were subject to similar regulation.

Question 4: Widening the Exemption

2.7 One respondent suggested that Premises Protection Insurance could be deregulated while another suggested that freight forwarders selling a simplified insurance option could also be deregulated. These responses aside there was a weight of opinion that there should be further consultation on the specifics of any proposal for further legislation. One respondent noted that the proposed deregulation was necessary to harmonise the treatment of 'open cover' insurance across the EU but that they did not want to see a situation where only professional insurance intermediaries were regulated and large sections of the secondary market were not.

2.8 The Government notes the general consensus among respondents and agrees that further consideration and consultation would be necessary before other exemptions could be brought forward. Any deregulation would need to be compliant with the Insurance Mediation Directive. The Government has no plans to bring forward further proposals for consultation on this area at present.

Question 5: Partial Impact Assessment

2.9 Most respondents were content with the partial RIA. One respondent said that they thought that the estimate of potential cost savings were, if anything, too conservative, and therefore the potential benefits were likely to be greater than the Government's estimate. They agreed, however, that potential cost savings were unusually sensitive to assumptions and that it was difficult to be more precise about what the net benefit would be. A further respondent noted that the figures quoted in the consultation document for the storage industry were from only the self storage industry (and did not include warehousing). HMT understands that, of the storage industry, only self storage (and storage as part of freight forwarding and removals) will be affected by the proposed deregulation. As such, although the RIA has been updated, it remains largely unchanged.

Question 6: Exemption Order

2.10 Respondents were generally content with the proposed extension to paragraph 50 of the Schedule to the Exemption Order. Some suggested drafting changes have been incorporated in the final version. One respondent sought to clarify that the definitions of "freight forwarder" and "storage firm" in the Exemption Order extend to removers and self storage firms.
The Government is content that the current wording of the definitions in the Exemption Order includes these firms.

Other issues raised by respondents

Direct and indirect selling

2.11 One respondent suggested that there was little practical difference between a freight forwarder selling a bespoke insurance product and selling an extension of benefits under an 'open cover' policy.

2.12 The Government acknowledges that, in terms of economic effect, there is little difference between a freight forwarder selling an insurance product to a customer and assigning rights under an 'open cover' policy between it and an insurer. In both cases the customer, in exchange for a consideration, receives the benefit of an insurance policy for the goods being transported. However, in the case of an 'open cover' policy, the insurance contract is between the freight forwarder and the insurance company. The freight forwarder may extend rights to the existing contract but may not alter the terms and conditions. This contrasts with the situation where a freight forwarder sells a dedicated insurance policy to the customer and can set the terms and conditions.

2.13 The Government believes that these important differences justify treating the two types of relationship differently because the risk of consumer detriment is considerably lower in passing on rights under an existing contract. The proposed deregulation harmonises this aspect of UK regulation with the rest of the EU. Any further deregulation would also need to be compliant with the Insurance Mediation Directive.

Code coverage

2.14 Some respondents noted that, as outlined in the consultation, the Codes of Practice were unlikely to cover all freight forwarders because not all firms are members of the relevant trade associations. One respondent suggested that this could result in consumer detriment.

2.15 The Government accepts that the Codes of Practice will not cover all freight forwarders but believes that, with coverage at around 80% of business by turnover[1], the risk of consumer detriment is small. In addition, as noted above, the Government believes that its proposals represent an improvement on the current position where 'extended liability' policies offer none of the protection afforded by the FOS and the FSCS that Option 3 will provide.

Scope of de-regulation

2.16 One respondent asked HMT to clarify whether the proposed de-regulation should be applicable to freight forwarders, removers and either (a) just self storage firms or (b) the wider storage industry (e.g. warehousing).

2.17 This deregulation, as with the previous deregulation of the commercial activities of freight forwarders and storage firms in 2007, applies to all storage firms including both self storage and warehousing. However, 'open cover' insurance is not widely used in warehousing except where a member is also a member of BIFA. As such, of the storage trade associations, only the SSA has been approached to agree a Code of Practice. HMT may review this should the situation change.

Premiums

2.18 One respondent asked whether the FSA would intervene if a freight forwarder were to charge a customer more than the cost of the insurance premium for receiving the benefits of an 'open cover' policy and how it would be subject to Insurance Premium Tax. There was also concern that charging high premiums could be a means of generating revenue at the expense of quality products.

2.19 HMT notes these concerns but believes that the transparency of premiums will at worse be no different to that under current 'extended liability' cover. The setting of premiums is a competitive practice that will be dealt with by the market. Neither the collection and administration of Insurance Premium Tax, nor premium mark-ups are subject to FSA regulation, so the situation in this regard will remain unchanged.

1 British International Freight Association (BIFA), British Association of Removers (BAR) and Self Storage Association (SSA).

Freight forwarders selling dedicated insurance products

2.20 One respondent sought to clarify that, prior to regulation of 'open cover' insurance in 2005, not all freight forwarders used 'open cover' and some sold dedicated insurance products from an insurer. HMT is content that this was the case but has no plans to deregulate such practices.

3 Conclusions & next steps

Conclusions

3.1 The responses received were universally in favour of option 3, some with additional proposals as to how it might best be implemented. As such the Government is content to proceed with the removal from the scope of FSA regulation of the practice of extending ‘open cover’ insurance policies to include the goods of retail customers, as proposed in option 3.

Next Steps

3.2 A final Impact Assessment is set out at Annex B. The Order amending the Exemption Order to extend the current exemption applying to freight forwarders and storage firms to cover individual customers will be laid in due course and made available on HM Treasury’s website. The Order is intended to come into force on 6 April 2009.

3.3 Please direct any enquiries to:

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A

List of respondents to the consultation

Aviva PLC

AXA Corporate Solution

Basil Fry & Company

British Association of Removers (BAR)

British International Freight Association (BIFA)

GB Lines Ltd

Lockton

RSA

Self Storage Association (SSA)

B

Final Impact Assessment

Summary: Intervention & Options		
Department /Agency: Her Majesty's Treasury	Title: Impact Assessment of deregulating retail freight forwarding and storage insurance	
Stage: Laying SI	Version: Final	Date: 12/02/2009
Related Publications: Deregulating freight forwarding insurance: consultation (Dec 2006), response and commercial IA (Jun 2007) and retail consultation (Jun 2008)		

Available to view or download at:

http://www.hm-treasury.gov.uk/deregulating_retail_freight.htm

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What is the problem under consideration? Why is government intervention necessary?

It is now apparent that the practice of extending all risk ‘open cover’ insurance policies to include the goods of customers in exchange for a premium does not come under the scope of the EU's Insurance Mediation Directive. Following consultation, the Government is assured there will be little or no consumer detriment as a result of this practice being deregulated for retail customers of freight forwarders (including removers) and storage firms. Intervention will reduce business costs, reduce the FSA workload and improve consumer protection.

What are the policy objectives and the intended effects?

Meet Governmental risk based objectives for better regulation by removing unnecessary regulation.

Stop unnecessary FSA authorisation fees for businesses and unnecessary work for the FSA.

Bring UK regulation in line with the rest of the EU.

Provide retail customers with better protection and redress through the FOS and FSCS since, following the 2005 regulation, many freight forwarders and storage firms have adopted a system of 'extended liability' or its equivalent that does not offer this protection.

What policy options have been considered? Please justify any preferred option.

1. Do nothing;

2. Remove from the scope of FSA regulation the practice of freight forwarders and storage firms extending ‘open cover’ insurance policies to retail customers; or

3. Remove from the scope of FSA regulation the practice of freight forwarders and storage firms extending ‘open cover’ insurance policies to retail customers. HMT and FSA would also work with the relevant trade associations to ensure that they have in place suitable codes of practice that would minimise consumer detriment, including joining the FOS. Preferred option - supported by consultation.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

The Government keeps all legislation under review, and in line with good practice would expect to review the policy within three years.

Ministerial Sign-off For Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options

Signed by the responsible Minister:

....Date: 09/02/2009

Summary: Analysis & Evidence

Policy Option: 3	Description: Deregulating retail freight forwarder and storage firm insurance while minimising consumer detriment

	ANNUAL COSTS		Description and scale of key monetised costs by ‘main affected groups’	
CO	One-off (Transition)	Yrs	Transitional costs in changing insurance practices. Members of BIFA, BAR and the SSA who wish to operate 'open cover' insurance would also join the Voluntary Jurisdiction of the FOS at a cost of £75 per year.	
	£ 1,550,000	1		
	Average Annual Cost (excluding one-off)			
	£ 57,000		Total Cost (PV)	£ 2,120,000

Other key non-monetised costs by ‘main affected groups’
Will remove FSA authorisation from an estimated 100 firms which might result in consumer detriment. However, all of these firms are likely to join the FOS for added customer security.

	ANNUAL BENEFITS		Description and scale of key monetised benefits by ‘main affected groups’	
BE S	One-off	Yrs	Removes the cost of FSA authorisation from freight forwarders and storage firms wishing to offer 'open cover'.	
	£0	1		
	Average Annual Benefit (l di ff)			
	£ 475,000		Total Benefit (PV)	£ 4,750,000

Other key non-monetised benefits by ‘main affected groups’
Greater consumer protection afforded by access to the FOS and the FSCS through 'open cover' contracts and additional voluntary membership of the freight forwarder or storage firm. This has not been monetised because reported complaints are so few. Greater insurance availability.

Key Assumptions/Sensitivities/Risks
Nearly all freight forwarders and storage firms will revert to offering unregulated 'open cover' in the first year. If increasing access to the FOS increases the customer base only slightly, this has a significant effect on the benefits, but is not certain so is not included in the net benefit.

Price Base Year 2008	Time Period Years 10	Net Benefit Range (NPV) £ 1,660,000 - 4,080,000	NET BENEFIT (NPV Best estimate) £ 2,630,000

What is the geographic coverage of the policy/option?	UK
On what date will the policy be implemented?	As soon as possible
Which organisation(s) will enforce the policy?	BIFA, BAR, SSA
What is the total annual cost of enforcement for these	£ Minimal
Does enforcement comply with Hampton principles?	Yes
Will implementation go beyond minimum EU requirements?	No
What is the value of the proposed offsetting measure per year?	£ N/A
What is the value of changes in greenhouse gas emissions?	£ N/A
Will the proposal have a significant impact on competition?	No

	Micro	Small	Medium	Large
Annual cost (£-£) per organisation (excluding one-off)	£75	£75	£75	£0
Are any of these organisations exempt?	Yes	Yes	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices) Increase£ N/ADecrease £ N/A	Net	(Increase - Decrease) £ N/A

Key: Annual costs and benefits: Constant Prices (Net) Present Value

Evidence base

B.1 The estimated costs and benefits of the Government's three proposed options are provided below.

B.2 Insurance is essential for both freight forwarders and storage firms. The retail market for both combined is estimated at £2 billion per year. Groups affected by the proposed legislation will be freight forwarders (including removers), storage firms, insurers and insurance firms and customers.

Option 1 – Costs and Benefits

B.3 Option 1 is no change. Freight forwarders and storage firms operating 'open cover' policies for retail customers would remain regulated by the FSA.

Benefits

B.4 There are no incremental benefits arising from option 1 as it maintains the status quo.

B.5 The features of this option are that:

- no additional costs would be imposed on the freight forwarding or storage firm sector; and

- the FSA would maintain regulation of all 'open cover' insurance transactions involving retail customers.

Costs

B.6 There are no incremental costs with option 1 as it maintains the status quo. However:

- this is out of sync with the rest of the EU which does not regulate the extension of 'open cover' insurance to retail customers;

- FSA regulation can be expensive for firms for whom financial services is not their main business; and

- there is currently potential for consumer detriment because of the development of the system of 'extended liability' as an alternative to FSA regulated insurance. While the cover offered may be equivalent to an 'open cover' policy extension, it does not offer the individual the safety of access to the FOS or the FSCS.

Option 2 – Costs and Benefits

B.7 Option 2 would remove from the scope of FSA regulation, the practice of freight forwarders (including removers) and storage firms extending their 'open cover' insurance policy to their retail customers.

Benefits

B.8 Option 2 would:

- bring UK regulation of this sector in line with the rest of the EU;

- enable a greater prevalence of 'open cover' insurance which would provide individuals with greater access to insurance and protection via the FOS and the FSCS; and reduce costs for freight forwarding and storage firms who are currently regulated by the FSA.

B.9 The FSA estimate that the annual incremental cost of compliance with the FSA Handbook is between £3,800 and £5,700 (including the Compulsory Jurisdiction FOS fee) per firm for small firms (the majority of firms affected will be small firms). Deregulation would provide a significant financial benefit to freight forwarders and storage firms currently authorised by the FSA through reduced authorisation and compliance costs. A regulated freight forwarder or storage firm typically incurs additional burdens through ensuring ongoing compliance with the FSA rules. There is also a one-off ‘understanding’ cost that a regulated firm incurs upon authorisation as it becomes familiar with the requirements of authorisation. This measure would remove that cost for new entrants to the market.

B.10 Benefits and costs under this option will depend upon the number of firms that change their insurance practices as a result of deregulation. They can be estimated if we assume that all firms currently offering ‘extended liability’ cover (or its equivalent) would switch to offering ‘open cover’ instead, while all firms currently regulated by the FSA and offering only ‘open cover’ insurance would no longer be regulated by the FSA. Using the median saving figure of £4,750, the total saving would be around £475,000 per year. This figure is calculated as follows:

for Removers this would be around 2,400 firms not regulated by the FSA and around 70 firms who are. Of these 70, all would cease to be authorised at a saving of around £332,500;

for Freight Forwarders (not including removers) who deal with retail customers this would be around 230 firms not authorised by the FSA, and around 15 who are. Of these 15, all would cease to be authorised at a saving of around £71,250 per year; and

for storage firms this would mean around 300 firms not regulated by the FSA, and around 15 who are. Of these 15, the largest few who sell other insurance may seek to remain authorised in the long term, so the saving would be up to £71,250.

B.11 Anecdotal evidence also suggests that customers of freight forwarders who have ceased their insurance activities in the light of FSA regulation have experienced higher premiums or difficulties in finding suitable cover when approaching insurers or insurance brokers directly. These benefits have not been monetised but would add to the net benefit range.

B.12 ‘Open cover’ policies, unlike ‘extended liability’ policies, extend rights of access to the FSCS and the FOS to the individual via the insurance contract between the freight forwarder and the FSA authorised insurance firm against the behaviour and failure of the insurer. These benefits have not been monetised because the principal estimated benefit would be one of reputation and reassurance to the customers. However, they would add to the net benefit range. The trade associations report very minimal retail complaints received each year. BAR, the removers trade organisation covering the largest section of the retail market, estimate that less than 0.05% of transactions generate a complaint to them and that they have internal processes in place to deal with them.

Costs

B.13 Option 2 is deregulatory and would not result in additional costs for freight forwarders or storage firms other than transitional costs.

B.14 We estimate that around 3,000 freight forwarders (including removers) and storage firms would change their insurance practices as a result of this measure because of the consumer benefits. Freight forwarders and storage firms that continue to offer only 'open cover' following deregulation would not be able to remain authorised by the FSA (those offering other insurance solutions may be able to remain authorised). Of these, we estimate that 2,900 would change from extended liability (or its equivalent) to 'open cover', as prior to regulation 'open cover' was prevalent. Around 100 FSA-authorised firms would cease to be regulated but would be likely to continue to offer 'open cover' policies. Almost all affected firms would be SMEs, the majority removers.

B.15 The average transition cost from FSA authorisation to 'open cover' is estimated at £1,000. The average transition cost from 'extended liability' or equivalent to 'open cover' is estimated at £500. The overall transition cost would be around £1,550,000 should all 3,000 firms adopt 'open cover' insurance once it was made available without authorisation – although this would not be compulsory. This figure is calculated as follows:

> 100 firms that are currently FSA authorised would deregulate at a transition cost of £1,000 each - £100,000 overall; and
>
> 2,900 firms that currently use 'extended liability' would change to 'open cover' at a transition cost of £500 each - £1,450,000 overall.

B.16 FSA regulation provides consumer protection. Ultimately there is a risk that removing FSA protection in any area could increase the risk of consumer detriment. There is scope for consumer detriment in deregulating the retail market because it involves individuals who are approaching the market for the first time. However, the Government believes that the risk of consumer detriment is low. The FSA estimates that only around 100 freight forwarders and storage firms are currently authorised. Following deregulation, an estimated 3,000 firms will offer 'open cover' policies. 'Open cover' policies extend rights of access to the FSCS and the FOS to the individual via the insurance contract between the freight forwarder and the FSA authorised insurance firm.

B.17 Importantly, however, should an individual feel that the freight forwarder or storage firm had misinformed them about 'open cover', or the firm became insolvent, the individual would have no recourse to the FOS or the FSCS as these rights will only be available in respect of the contract between the insurer and freight forwarder (not the freight forwarder and the individual).

Option 3 – Costs and Benefits

B.18 Option 3 would remove from the scope of FSA regulation, the practice of freight forwarders (including removers) and storage firms extending their 'open cover' insurance policy to their retail customers. HMT and FSA would also work with the relevant trade associations to ensure that they have in place suitable codes of practice that would minimise consumer detriment. This would include joining the Voluntary Jurisdiction of the FOS.

Benefits

B.19 The benefits of option 3 are as for option 2, but with additional recourse for consumers who feel that they have been mistreated. Option 2 allows the customer to take complaints against the insurer to the FOS, but not complaints against the freight forwarder or storage firm. Option 3 would allow the customer to take complaints against both the insurer and the freight forwarder or storage firm to the FOS as freight forwarders or storage firms belonging to one of the trade associations will be subject to the Voluntary Jurisdiction of the FOS under their code of practice. While this will not provide the protection of the FSCS against the failure of a freight forwarder, this protection has yet to be called on. The industry has supported the introduction of codes of practice with a provision for joining the Voluntary Jurisdiction of the FOS, and clearly values the additional customer security and enhanced reputation that this would provide. These benefits have not been monetised but would add to the net benefit range. Access to the Voluntary Jurisdiction of the FOS would only apply to freight forwarders and storage firms that were members of a trade association. Trade association membership currently covers the majority of business (over 80% by turnover[1]).

Costs

B.20 The costs of Option 3 are as for Option 2, plus the additional costs of joining the Voluntary Jurisdiction of the FOS. There will be an annual fee for access to the FOS for freight forwarders and storage firms as insurance intermediaries (£75 in 2009/10[2]). There is no case fee payable for the first three FOS cases per firm per year. For additional cases, case fees would be charged at £500 per case[2], no matter what the outcome of the complaint. There would be additional costs to freight forwarders and storage firms where the FOS makes an award to the consumer on the basis of a mis-selling complaint.

B.21 Assuming that, in the long term, around 5% of BIFA members (those who deal with retail customers), all members of the SSA who do not offer alternative means of insurance, and all members of BAR will join the FOS, the total annual cost of Option 3 will be around £57,000 per year. This figure is calculated as follows:

> all 483 BAR members[3], all 200 or so SSA members[4] and around 5% of the 1,419 BIFA members[5] that provide services to retail customers would be required to join the Voluntary Jurisdiction of the FOS at a cost of £75. This equates to an annual cost of £56,550.

Assessing the range of benefit for Option 3

B.22 The cost of compliance with the FSA Handbook is between £3,800 and £5,700 (including the Compulsory Jurisdiction FOS fee) per firm for small firms. The IA assumes that all 100 firms currently regulated by the FSA and offering only 'open cover' insurance would no longer be regulated by the FSA, and uses the median saving figure of £4,750 to arrive at a total saving of around £475,000 per year.

B.23 In order to inform the 'Net Benefit Range' field, it is necessary to consider the savings at either end of the range given by the FSA. So:

Table B.A: Savings range for removal from FSA authorisation

	Number of deregulated firms	£ Lower 3800	Median 4750	Higher 5700
Removers	70	266000	332500	399000
Freight forwarders	15	57000	71250	85500
Self storage costs	15	57000	71250	85500
Total		380000	475000	570000

[1] BIFA, BAR and SSA.

[2] The Financial Ombudsman is currently consulting on the corporate plan and 2009/10 budget, including levy and case fees: http://www.financial-ombudsman.org.uk/publications/pb09/pb09_annex_d.html.

[3] BAR 2009.

[4] SSA 2009.

[5] BIFA 2009.

B.24 There are 4 non-monetised benefits listed:

1 the benefits of customer access to the FOS and the FSCS for redress against the insurer, under ‘open cover’ policies (as opposed to ‘extended liability’ policies);

2 the benefits of customer access to the FOS for redress against the freight forwarder/remover/storage firm under the FOS’ Voluntary Jurisdiction;

3 anecdotal evidence of customers of freight forwarders who, under the current regime, have ceased their insurance activities, as a result of experiencing higher premiums or difficulties in finding suitable cover; and

4 lowering of barriers to entry and removing the super-equivalent regulatory regime.

B.25 Taking these 4 non-monetised benefits together, while it is impossible to make an assessment of their combined monetary value, we have made the following assumptions to arrive at a possible range value:

1 most freight forwarders and storage firms are not currently regulated and do not provide ‘open cover’ policies, but will do so after deregulation;

2 the cost of FOS membership is likely to be low. The base membership costs of the FOS and FSCS are included in the cost of compliance with FSA Handbook. However, should a firm have more than 3 cases per year at the FOS a £500[2] case fee would be payable. But complaint levels within the industry are low (BAR estimate that less that 0.05% of transactions generate a complaint to them) so these costs are unlikely to be incurred. A minimal cost of £2,000 per year is assumed[6];

3 FOS membership may encourage consumers at the margin to use a freight forwarder or storage firm where they otherwise would not. If the retail business of freight forwarders and storage firms were increased by 0.01%, the benefit would be in the region of £200,000[7] per year. However, it is not possible to predict this, so we have assumed a conservative estimate of £50,000 per year; and

4 It is not possible to provide an estimate based on anecdotal evidence that other types of insurance may be more expensive, or on the effect of lowering barriers to market entry.

5 Therefore the estimated range for the non-monetised benefits is -£2,000 per year to +£50,000 per year.

Net benefit range

B.26 Taking the cost of compliance with FSA Insurance Conduct of Business Sourcebook and the non-monetised benefits together:

Lower range = [(£380,000 – £2,000) x 10 years] - £2,120,000[8] = £1,660,000

Higher range = [(£570,000 + £50,000) x 10 years] - 2,120,000[8] = £4,080,000

[6] An additional 4 complaints to the FOS per year above the 3 case per firm cut-off.

[7] 0.01% of Value of freight forwarding and storage retail market (£2bn) = £200,000.

[8] £1,550,000 million transition costs + (£56,550 FOS membership costs x 10 years) = £2,115,500 (rounded up).

Net benefit (NPV best estimate)

B.27 We have not taken the non-monetised benefits into account when calculating the Net Benefit as the assumptions made are too broad.

Impact on small firms

B.28 The vast majority of freight forwarders and storage firms are SMEs. SMEs are far less likely to seek FSA authorisation. Instead the majority have relied upon 'extended liability' or equivalent schemes and will likely revert to 'open cover' in the long run because of the greater protection it affords their customers.

Competition assessment

B.29 This proposal is likely to have a positive impact on competition in the market for the provision of insurance cover for the loss of or damage to private goods in transit. Reducing regulatory costs will generally lower barriers to entry in this market, and UK freight forwarders will not be subject to a super-equivalent regulatory regime compared to EU freight forwarders. These benefits have not been monetised but would add to the net benefit range.

Race, disability, gender and human rights

B.30 This proposal will have no impact on race, disability, gender or human rights.

Specific Impact Tests: Checklist

Type of testing undertaken	Results in Evidence Base?	Results annexed?
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	No	No

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