

A round up of policy events and news

Top stories

Insurance supervision

Insurance supervision – speech by Andrew Bailey (FSA) at the CII/Barbon lecture: Andrew Bailey, Managing Director, Prudential Business Unit, FSA, has made a speech on the prudential supervision of insurance. The speech discussed the proposed approach to insurance supervision under the new regulatory regime. It focused in particular on:

- the supervisory objectives of the Prudential Regulation Authority (PRA) and its approach to supervision;
- the supervision of with-profits insurance; and
- systemic risk and recovery and resolution issues in the insurance market.

For a copy of the full speech, [click here](#)

FSA gives latest update on transition to PRA: The FSA has issued its latest update to firms on what they need to do to get ready for the transition to the Prudential Regulation Authority (PRA) on legal cutover (LCO). The PRA's approach to supervision was outlined in two approach documents last year (one for insurers and one for investment firms/deposit takers). Revised versions of these approach documents will be issued at LCO and will act as a standing reference for firms. The update covers a number of points including changes to individual guidance and threshold conditions. [Click here](#)

FSA publish insurance conduct supervision newsletter: The FSA has published its first insurance conduct supervision newsletter. It covers issues relating to general insurance, life insurance, recent speeches and policy developments. [Click here](#)

FSA on transparency

FSA publishes discussion paper on transparency: The FSA has published a discussion paper (DP 13/1) which considers how transparency and more effective disclosure could improve the accountability of the incoming Financial Conduct Authority (FCA) and the financial services industry, and help consumers to make more informed decisions. The discussion paper contains proposals on: information that the FCA could release about its own operations; information that the FCA could release about firms, individuals and markets; and information that the FCA could require firms to publish. The FCA is committed to being a transparent regulator and to being open to scrutiny from consumers, firms and Parliament. As part of this process, the FCA wants to gather views and ideas from interested parties about information which, if disclosed, would be helpful for firms and consumers. [Click here](#)

Westminster and Whitehall

Speeches

Ed Milliband – One Nation Labour economy: Labour Leader Ed Miliband has given a speech on the economy in which he began to outline his party's plans for a 'fairer tax system'. Central to this would be a mansion tax on houses worth over £2 million to fund a new 10p lower rate of tax (this would be tapered to ensure the benefits only went to people on lower and middle incomes, rather than high earners). He also called for a temporary cut to VAT. In relation to the economy outside taxation, Mr Miliband said Labour would create a technical baccalaureate at age 14 as an alternative to A-levels, called for an end to short-termism in industry, and advocated new rules to stop unfair bank charges and tighter banking regulation. [Click here](#)

Legislation

Financial Services (Banking Reform) Bill: The Financial Services (Banking Reform) Bill has been introduced into the House of Commons. Measures within the Bill include: a requirement on UK banks to separate everyday banking activities from investment banking activities; providing the Government with power to ensure that banks are more able to absorb more losses during a crisis; and ensuring that the Prudential Regulation Authority (PRA) is focused on holding banks to account for the strength of their ring-fence. [For the Bill click here](#)

A draft Financial Services (Banking Reform) Bill was published in 2012 and scrutinised by a joint-committee of MPs and Lords (Parliamentary Commission on Banking Standards). Following the committee's recommendations the Bill was amended. The Treasury has published a paper, *Banking reform: a new structure for stability and growth*, which explains where changes have been made. [Click here](#)

Publications

Equitable Life Payment Scheme - progress report: A new progress report has been published on the Government's Equitable Life Payment Scheme (ELPS). The ELPS was set up to make payments to Equitable Life policyholders who suffered financial losses as a result of maladministration in the regulation of Equitable Life. Eligible individual policyholders who have not yet been contacted by the ELPS are encouraged to get in touch. Members of group pension schemes do not need to take action. [Click here](#)

Ministry of Justice report - The PPI Claims market: Dealing with Malpractice: A team set up by the Ministry of Justice's Claims Management Regulation Unit to monitor the firms that deal with PPI has published a report, *The PPI Claims market: Dealing with Malpractice*. The report presents a summary of the PPI Compliance Team's activities and achievements to date. [Click here](#)

Life assurance tax guidance: The Finance Act 2012 introduced a new regime for the taxation of life insurance companies with effect from 1 January 2013. Comprehensive guidance on the new regime will be provided in due course. In the meantime, HMRC have provided interim standalone guidance on those aspects which are most likely to be of immediate interest. The guidance papers consist of the following:

- [Allocation of income, gains, profits and losses](#)
- [Transfers of long-term business](#)

There is also guidance on interaction with the controlled foreign companies (CFC) legislation:
[The Insurance Companies and \(CFCs\): Avoidance of Double Charge Regulations 2012](#)

Announcements

Financial education included in new curriculum: Following an announcement by the Department for Education, the new curriculum for schools will see financial education embedded in both mathematics and in Citizenship education. This means that financial capability will become a statutory part of the curriculum for the first time. The new programme of study for Citizenship specifically includes: Key Stage 3 – the functions and uses of money, the importance of personal budgeting, money management and a range of financial products and services; and Key Stage 4 – wages, taxes, credit, debt, financial risk and a range of more sophisticated financial products and services.

The CII published research in December 2011 highlighting the need for the provision of financial education in schools. This was submitted as part of the review of financial education. [Click here](#)

Committees

Parliamentary Commission on Banking Standards ('Tyrie' Commission): Lord Turner and Martin Wheatley of the FSA have given oral evidence to the parliamentary commission on banking standards. Martin Wheatley, the future head of the Financial Conduct Authority, was questioned on whistleblowing within financial services. He also suggested that the current 'approved persons regime' maybe looked at to see if there can be any greater flexibility in it or if it can be extended to cover more of those working in the industry. The FSA also provided written evidence which rejected the need for a Banking Professional Standard Board.

"A number of respondents to the Commission have proposed the establishment of an independent statutory professional body, or "Banking Standards Board", as a way of raising standards within the industry. The proposal is that such a body would license individuals working within the industry, and would have powers to take disciplinary action against them, including removing their license, which would amount to a prohibition to work in the industry. In taking over the role of regulation of individuals from regulators, we have some concerns about the establishment of such a body as it would appear to duplicate or overlap with functions that are already provided for in the existing regulatory framework. This could lead to confusion of responsibilities and an increase in regulatory costs.

"We believe it would be possible to deliver any benefit that might be sought from the establishment of a Banking Standards Board, and to avoid any of the difficulties that might arise, by strengthening and extending the approved persons regime. The possible ways of doing this have been raised briefly in this submission and in more detail in point 21 of our submission of 18 January on sanctions and the approved persons regime. We would welcome any initiative that seeks to raise professional standards within the industry. However, the key will be that any initiative adds value rather than duplicates or overlaps with functions that are already provided for in the existing regulatory framework." [Click here](#)

Regulators and Bank of England

Announcements & Publications

FSA plans to publish new FCA and PRA Handbooks online in March: The FSA has published further information on its plan to split the FSA Handbook into two new Handbooks that will come into effect when the two new regulatory bodies, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), acquire their legal powers on 1 April. The new FCA and PRA Handbooks will be published online in the month prior to 1 April to give firms time to

familiarise themselves with them. Materials on how to interpret the application of the Handbooks will also be published. [Click here](#)

RDR - FSA launches adviser charging thematic review: The FSA has begun its series of RDR related thematic reviews. The first will look at how advisers are disclosing the cost and nature of their advice services post-RDR. The regulator sent out a questionnaire to 50 firms looking at adviser charging and scope of service. Firms are being asked to detail when charges and services are disclosed to clients and to provide copies of disclosure material. The firms have been chosen to reflect large, medium and small firms, and those which are operating as wholly independent, wholly restricted or running a hybrid model. The review will be carried out over three six-month cycles. At the end of the initial cycle, the FSA will publish good and poor practice examples. The second cycle will run between June and December and the third cycle will run in the first half of 2014.

Latest RDR Q&A from the FSA: The FSA has published a fact sheet for firms covering the top questions on RDR asked at recent FSA events. Topics covered include professionalism, independent/restricted advice and adviser charging. [Click here](#)

Latest RDR newsletter: The FSA has released issue 9 of its newsletter on the retail distribution review (RDR). This issue contains articles including: passive investments; new market developments regarding social investments; a reminder about the new RDR data requirements; supervision compliance with the RDR; receiving adviser charges over a period of time; adviser readiness research; and reviewing systems and controls. [Click here](#)

FSA outlines MMR implementation timetable: As part of its implementation strategy for the Mortgage Market Review (MMR), the FSA has developed a seven-point plan of communication and timeline to assist firms from now up to the date of implementation (26 April 2014). The seven phases of implementation are:

- Q1 2013 - regional implementation roadshows for intermediaries and lenders;
- Q2 2013 - the FSA will start to track progress towards successful implementation including by requiring firms to complete an online survey (phase 1 readiness tracking);
- Q3 2013 - publication of phase 1 readiness tracking findings which will help to tailor the next steps of implementation;
- Q4 2013 - tailored workshops concentrating on areas of concern;
- Q4 2013 - resending the online survey to all regulated mortgage firms (phase 2 readiness tracking);
- Q1 2014 - publication of phase 2 readiness tracking findings which will help to tailor the final communications before implementation; and
- 26 April 2014 – MMR implementation.

[Click here](#)

FSA publishes the results of a mystery shopping review into the quality of investment advice in banks and building societies: The Financial Services Authority (FSA) has published the results of a mystery shopping review, carried out between March and September 2012, looking into the quality of investment advice given by banks and building societies. The mystery shopping review assessed six major firms in the retail banking sector, focusing on the quality of advice given to customers looking to invest a lump-sum. In total 231 mystery shops took place. The results show that, while approximately three-quarters of customers received good advice, there were concerns with the quality of

advice in the other quarter. Key reasons for poor advice were that the adviser's recommendations were unsuitable for:

- the level of risk customers were willing and able to take (15 per cent);
- customers' financial circumstances and needs (13 per cent); and
- the length of time customers wished to hold the investment (6 per cent).

The FSA has mentioned that the firms involved in this review were cooperative and agreed to take immediate action to address shortcomings. This included: (i) retraining advisers, (ii) making significant changes to advice processes and controls for new business, and (iii) undertaking past business reviews in order to identify historic poor advice and put this right for customers. The FSA has also required firms to employ an independent third party to either carry out or oversee this work. One firm has been referred to enforcement. [Click here](#)

FSCS publishes 2013/14 plan and budget: The Financial Services Compensation Scheme (FSCS) has published its plan and budget for 2013/14, setting out the first indicative estimates of the FSCS' levies on financial services firms for the coming year. The FSCS anticipates that financial services firms are likely to pay a total levy bill of £311 million (by comparison total levies in 2012/2013 were £265 million). The FSCS is expecting the overall volume of new claims it receives in 2013/2014 to be considerably lower than in the previous year. [Click here](#)

The Pensions Regulator - Record-keeping review: The Pensions Regulator has begun the first in a series of thematic reviews that it will be implementing as part of its regulation of governance and administration, particularly among defined contribution (DC) schemes. The first review aims to establish whether schemes have met targets for keeping accurate records, and how they have addressed the regulator's record-keeping guidance. [Click here](#)

European & International News

EIOPA chairman speech on IMD2 and Solvency II emphasises consistency of supervisory and regulatory practices: Gabriel Bernardino, the chairman of European Insurance and Occupational Pensions Authority (EIOPA), has given a speech entitled "*IMD2 and Solvency II – the Road to Better Policyholder Protection and Financial Stability*". Mr Bernardino put forward his personal reflections on the current challenges in revising the regulatory framework in the insurance area, including the Insurance Mediation Directive (IMD) and Solvency II. He emphasised that the retail insurance market should be effectively supervised both from a national and a European perspective, bearing in mind the wide variety of existing structures at the national level of supervision. EIOPA is planning to develop guidelines that will ensure that national supervisory authorities implement important aspects of the new prospective and risk based supervisory approach. EIOPA plans to have a public consultation on the guidelines in April/May 2013 and the guidelines will then be put before the EIOPA Board of Supervisors in the autumn. [Click here](#)

Study on co(re)insurance pools and on ad-hoc co(re)insurance agreements on the subscription market: The European Commission has published a paper entitled "Study on co(re)insurance pools and on ad-hoc co(re)insurance agreements on the subscription market". The paper sets out an overview of co(re)insurance pools after the adoption of the Block Exemption Regulation ((EU) No.267/2010); overview of ad-hoc co(re)insurance agreements on the subscription market; and analysis of similarities and differences between co(re)insurance pools and ad-hoc co(re)insurance agreements on the subscription market. [Click here](#)

ESMA guidelines on remuneration of AIFMs: The European Securities and Markets Authority (ESMA) has published its final "Guidelines on remuneration of alternative investment fund managers" (AIFMs). [Click here](#)

IAIS self-assessment and peer review on corporate and risk governance: The International Association of Insurance Supervisors (IAIS) has launched a self-assessment and peer review on corporate and risk governance. The review assesses observance and understanding of the IAIS Insurance Core Principles related to licensing, suitability of persons, corporate governance and risk management and internal controls. [Click here](#)

MAS publishes guidelines on senior management responsibility for delivering fair dealing outcomes to customers: The Monetary Authority of Singapore (MAS) has published “*Guidelines on Fair Dealing – Board and Senior Management Responsibilities for Delivering Fair Dealing Outcomes to Customers*”. The Guidelines focus on board and senior management responsibilities for delivering fair dealing outcomes to customers, and set out five fair dealing outcomes:

- customers should have confidence that they deal with financial institutions where fair dealing is central to the corporate culture;
- financial institutions should offer products and services that are suitable for their target customer segments;
- financial institutions should have competent representatives who provide customers with quality advice and appropriate recommendations;
- customers should receive clear, relevant and timely information to make informed financial decisions; and
- financial institutions should handle customer complaints in an independent, effective and prompt manner.

[Click here](#)

Industry news

ABI Code of Conduct on Retirement Choices: The ABI’s Code of Conduct on Retirement Choices will be implemented on March 1st. The Code aims to help those who buy an annuity each year better understand their options at retirement, choose the right annuity for their circumstances and shop around for the best deal, through clear and consistent information provided by insurers. At least two years from retirement the insurer will encourage the customer to consider their retirement options. Six months from retirement and at least six weeks from retirement the insurer will send details explaining the various options, such as combining small pots, and shopping around for the best annuity. To monitor the effectiveness of the Code the ABI will conduct consumer research to assess changes in people’s retirement awareness and pension purchasing. The impact of the Code will be reviewed in 2014. [Click here](#)

Consultations (closing date order – nearest first)

DWP publishes call for evidence on impact of Defined Benefit pensions on growth: The Department for Work and Pensions had published a call for evidence on the impact of funding Defined Benefit (DB) pensions on investment and growth. The call consists of two key questions. One asks whether companies undergoing valuations of their DB pension deficits should be allowed to smooth the calculation of their asset and liabilities. The other asks whether the Pensions Regulator should be given a new statutory objective to consider the long-term affordability of deficit recovery plans to sponsoring employers. Closing date: 7 March. [Click here](#)

Chartered Institute of Internal Auditors - Effective Internal Audit in the Financial Services Sector: The Chartered Institute of Internal Auditors has published a consultation on draft guidance for effective internal audit in the financial services sector. The guidance aims to provide an industry benchmark for best practice internal audit in the UK financial

services sector. It will also provide a gauge by which the supervisor can assess the role, function and effectiveness of financial sector internal audit functions. Closing date: 12 April. [Click here](#)

Department for Transport - Review of the uninsured and untraced drivers' agreements: The Department for Transport has launched a consultation to review of the uninsured and untraced drivers' agreements which Department has with the Motor Insurers Bureau. Closing date: 26 April. [Click here](#)

Joint Forum consults on mortgage insurance: The Joint Forum, consisting of the Basel Committee on Banking Supervision, the International Organization of Securities Commissions and the International Association of Insurance Supervisors, has published a consultative report entitled: "Mortgage insurance: market structure, underwriting cycle and policy implications". The report analyses the interaction of mortgage insurers with mortgage originators and underwriters, and makes a number of recommendations directed at policymakers and supervisors designed at minimising the likelihood of mortgage insurance stress and failure in the event of a significant crisis. Closing date: 30 April. [Click here](#)

Department of Health - consultation on legislation on indemnity insurance: The Department of Health is consulting on draft regulations on the requirement for all regulated healthcare professionals to hold an insurance or indemnity arrangement as a condition of their registration with the relevant regulatory body. Closing date: 17 May. [Click here](#)

Appointments

Andrew Bailey has been appointed as **Deputy Governor of the Bank of England with responsibility for Prudential Regulation**, starting on 1 April 2013. He joined the Bank in 1985 and has since worked in a number of areas, most recently as Executive Director for Banking Services and Chief Cashier, as well as Head of the Bank's Special Resolution Unit.

Forward Look

2013

March 20: UK Budget.

March: Policy statement to CP12/36 on "Regulatory Reform: The regulation and supervision of benchmarks".

March: Policy statement to CP12/35 on "The FCA's use of temporary product intervention rules".

March: "Regulatory Reform: PRA Designation of Investment Firms" – (issued by the Bank of England).

March: Policy statement to CP12/39 "The PRA's approach to enforcement: consultation on proposed statutory statements of policy and procedure".

March: Policy statement to CP12/24 on "Regulatory Reform: PRA and FCA regimes relating to aspects of authorisation and supervision".

March: Policy statement to CP12/37 on "The Financial Services Bill: implementing markets powers, decision-making procedures and penalties policies".

March: Policy statement to CP12/26 on "Regulatory Reform: the PRA and FCA regimes for Approved Persons".

March: Policy statement to CP12/34 on "Regulatory Reform: FCA Handbook"

Q2: Queen's Speech.

Q2: Policy statement to CP12/30 on "Complaints against the regulators (Bank of England, Financial Conduct Authority, and the Prudential Regulation Authority)".

Q2: Policy statement to CP12/19 on "Restrictions on the retail distribution of unregulated collective investment schemes and close substitutes".

April 1: New UK regulatory structure implemented.

April 16: Indicative date for the European Parliament plenary sitting to consider the proposed Mortgage Credit Directive.

May 22: European Parliament plenary sitting to consider the proposal for a Regulation on packaged retail investment products (PRIPs).

July 2: proposal for the recast Insurance Mediation Directive (IMD 2).

July 2: proposal for a Regulation on packaged retail investment products (PRIPs).

Q3/4: Policy statement to CP12/20 on "Review of the client money rules for insurance intermediaries".

8 October: Indicative date for the European Parliament plenary sitting to consider the legislative proposals for Markets in Financial Instruments Directive (MiFID2).

Q4: Solvency II (Directive 2009/138/EC) Level 2/implementing measures, due.

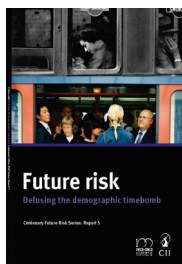
NB: Final rules for CP10/2 on "Mortgage Market Review: Arrears and Approved Persons", deferred until further notice.

CII Policy & Public Affairs Online Content

Please be sure to visit the CII's policy and research online content. Briefings, updates, research papers and much more are available for download. To find out more visit: www.cii.co.uk/insight

We have published a number of briefings, research and guidance documents recently. They include:

The RDR and consumers - research: To understand consumer attitudes towards and awareness of the RDR we undertook a survey of members of the public. We looked to assess awareness of the RDR and the changes to the financial advice market, as well as the potential benefits this might bring. The results have been published in our new report, '*The RDR and consumers: A research report into consumer views on the financial advice regulatory reforms*'. [Click here](#)



Centenary Research Future Risk: Report 6 Insuring for a stronger world: The final report in the CII centenary Future Risk identifies risks and discusses their implications for society, the insurance sector and financial services in general. It looks forward to 2030 and also includes research on consumer and practitioner attitudes towards future risks. [Click here](#)



Equality & diversity: A good practice guide: We have published an equality and diversity guide for our members, employers and the insurance profession as a whole. This is the first time we have published such a guide and is a further sign of our commitment to promoting equality and diversity within our profession. The guide provides information on the case for diversity, the legal framework, and tips on how to manage equality and diversity. [Click here](#)

This update has been produced by the CII Group's Policy and Public Affairs team.

The CII is the world's leading professional organisation for insurance and financial services, with over 110,000 members in 150 countries. We are committed to maintaining the highest standards of technical expertise and ethical conduct in the profession through research, education and accreditation. Our Charter remit is *to protect the public by guiding the profession*.

For more information on the CII and its policy and public affairs function, including examples of the range of issues in financial services and insurance that we cover, please see: www.cii.co.uk/insight.

Please do not hesitate to contact us: Daniel Pedley, Public Affairs Manager, tel 020 7417 4450; daniel.pedley@cii.co.uk