



A round-up of policy events and news

Covering period March 2011

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Top stories

Budget 2011: The Chancellor of the Exchequer, George Osborne, has given his second Budget statement. He described his latest Budget as a “budget for growth” in which he looked to stimulate growth without derailing deficit reduction and within the context of high short term inflation. Headline announcements included:

- A reduction in the main rate of corporation tax by a further 1%.
- Increasing the personal allowance to £8,105 by 2012-13.
- Proposing a consultation process to merge National Insurance Contributions and Income tax.
- A cut in fuel duty by 1p and the introduction of a ‘fair fuel duty stabiliser’.
- Measures to help out first time buyers.

Among the announcements made, those with an impact on the financial services sector include:

- **Bank levy.** This came into force on 1 January 2011. On 8 February 2011, the Government announced an increase in the levy rates. The full levy rates were 0.05 per cent from 1 January 2011 until 28 February 2011, they are 0.1 per cent from 1 March 2011 until 30 April 2011, 0.075 per cent from 1 May 2011 until 31 December 2011 and 0.078 per cent thereafter.
- **Solvency II and the taxation of life insurance companies.** The Government expects to legislate on the new post-Solvency II life insurance tax regime. The new regime will deal with essential adjustments arising from Solvency II and at the same time aims to deliver substantial changes designed to create a simpler and more stable tax basis better aligned with the taxation of companies generally.
- **Islamic finance.** The Government intends to make regulations to introduce direct tax rules for sharia-compliant variable loan arrangements and derivatives in 2011, following informal consultation with industry representatives.

[Click here for Budget website](#)

The CII has produced a briefing on Budget 2011 [click here](#) (login required)

Treasury Select Committee hearing on RDR: On 9 March Hector Sants and Sheila Nicoll faced the Treasury Select Committee for a ‘one off’ oral evidence session about the Retail Distribution Review (RDR). The FSA was called to give oral evidence following the submission of over a thousand pages of written evidence to the Committee, much of which was published in early February this year. Topics covered during the session included: bridging the savings gap; the simplified advice regime; the number of advisers who could leave the market; grandfathering; alternative assessment; professionalism & qualifications; commission and labelling of advice. [Click here](#)

Westminster & Whitehall

Announcements

Publication of Government's Growth Strategy: Alongside the Chancellor's Budget announcement, the Government has published its 'Plan for Growth'. It is hoped that the package of measures will help create a "new model" of economic growth by achieving the Plan's four overarching ambitions:

1. To create the most competitive tax system in the G20.
2. To make the UK the best place in Europe to start, finance and grow a business.
3. To encourage investment and exports as a route to a more balanced economy.
4. To create a more educated workforce that is the most flexible in Europe.

Measures include fundamental reforms to the way the planning system works and reduces the burden of regulation that businesses have to comply with. [Click here](#)

Government announces further details about changes to pensions tax relief: Financial Secretary to the Treasury, Mark Hoban, has announced how the facility for meeting high annual allowance (AA) charges from pension benefits will work in practice, including that the tax should be paid at the point the charge arises. From April 2011 the AA for tax-privileged pension saving will be reduced from £255,000 to £50,000 and from April 2012 the lifetime allowance will be reduced from £1.8 million to £1.5 million. Schemes will have time to complete the payment process, with additional flexibility being granted in the first year. Individuals with AA charges above £2,000 will be able to elect for the full liability to be met from their pension benefit. Schemes will be required to operate this facility only where an individual has exceeded the AA outright within that scheme in the relevant year. The Government has given schemes flexibility in how they operate, but is clear that any adjustment to an individual's pension benefit should be fair to all scheme members. [Click here](#)

Transport Select Committee report on motor insurance: The Transport Committee has published its report on the cost of motor insurance. The Committee believes that fraud is one of the main factors driving up the cost of motor insurance and that wider access to justice should not provide a licence to make false personal injury claims under car insurance policies. The report calls for a dedicated police unit – paid for by the insurance industry – to be established to tackle this "escalating problem". The committee also recommended that the Government:

- set out a clear timetable for data-sharing between the Driver and Vehicle Licensing Authority and motor insurers.
- undertake a promotional campaign to alert young drivers to the need for valid motor insurance.
- review the penalties for uninsured driving.
- fund research into international experience with fraudulent personal injury claims relating to motor insurance, with a view to publishing a discussion paper during 2012.

[Click here](#)

Small firms no longer to need independently audited accounts: Business Secretary Vince Cable has announced end to the requirement for small businesses to have independently audited accounts. This is part of the Government's push to cut bureaucracy and is expected to save small firms £40m. [Click here](#)

Legislation

Bribery Act: The Ministry of Justice has announced that the Bribery Act will come in to force in the UK from July 1st. To coincide with this news guidance has been produced that outline safeguards that businesses can implement. Below are links to this guidance and the related press release. [Click here](#)

Regulators & Bank of England

FSA guidance on adequacy of year-end reserving to general insurance firms: The FSA has written an open letter to all general insurance firms outlining concerns about how current market conditions are increasing the risks of inadequate reserving, and its potential effect on pricing, in the sector, and creating potential pressures within firms' reserving governance arrangements. The FSA's letter is designed to remind firms of the relevant rules and guidance in this area and, in relation to these, of a firm's responsibility for setting adequate claims reserves. The relevant provisions of the FSA's Prudential

Sourcebook for Insurers (INSPRU) and Handbook (GENPRU) are set out in the letter. The FSA has requested that firms ensure that there is appropriate recognition of these risks within the reserve-setting process as the 2010 year-end numbers are finalised, and also in future reserve setting and monitoring exercises. [Click here](#)

FSA publishes complaints data: The FSA has published the latest firm-level complaints data, covering the period 1 July 2010 - 31 December 2010 (2010 H2). This comprises complaints data reported by firms to the FSA and includes volume of complaints, handling procedure and redress paid. Complaints figures vary considerably with the amount of business a firm conducts, so a high volume of complaints does not necessarily mean poor customer service. Many firms have, therefore, published additional information alongside the complaints data on their websites to put their figures into context in relation to the size of their business. The data has been broken down to allow complaints data relating to the same broad type of business to be compared between firms. The total number of complaints was up 3% on the previous figures. There was a marked increase for general insurance and pure protection products of 37%, and within that category payment protection insurance (PPI) complaints rose 63%. Complaints about advising, selling and arranging rose 47%, mainly concerning PPI. The largest amount of redress by product was for general insurance and pure protection which increased by 15% to £319m, reflecting the large number of complaints relating to PPI. [Click here](#)

Creating the FCA - speech by Hector Sants, FSA: Hector Sants, Chief Executive, FSA, has delivered setting out the opportunities created by the government's intention to establish a specialist regulatory authority focussing on consumer protection and markets. The new institution will be called the Financial Conduct Authority (FCA) and, amongst other things, will build upon the FSA's new proactive consumer protection strategy, launched in March 2010. The speech focused on five topics:

- the consumer protection agenda – the FCA will build upon the FSA's recent proactive consumer protection strategy launched in March 2010, together with new powers granted to it by parliament;
- the consumer protection 'tool kit' – the FCA will have stronger powers of intervention than the FSA and may intervene to ban new products where considered necessary for consumer protection;
- the markets agenda – little will change although the FCA will take a fresh look at wholesale conduct issues;
- the importance of Europe – it will be vital to coordinate effectively at a UK domestic level so that UK interests are properly represented on the appropriate European Supervisory Authority, especially where the UK regulatory system does not map directly to the European system; and
- the FSA's transitional arrangements – the FSA will move to a new management structure in April 2011 shadowing the proposed regulatory reforms with a prudential and a conduct unit.

[Click here](#) for the full speech.

FSA publishes its Prudential Risk Outlook: The FSA has published its Prudential Risk Outlook (PRO), which sets out its assessment of macroeconomic and financial trends which form the context for its micro-prudential regulation and supervision of firms. The analysis which underlies the PRO informs how the FSA sets priorities and deploys its resources. The PRO notes that over the past two years the capital and liquidity position of the UK banks has improved significantly. However, the document highlights persistent risks to financial stability. It highlights in particular:

- incomplete progress in deleveraging required to create a less vulnerable system;
- progress towards improved global capital and liquidity standards and the need, as that progress is achieved, to understand possible risk transfers and migrations to other parts of the financial system;
- a number of important areas of credit risk, relating in particular to vulnerable euro-zone countries, to commercial real estate, and potentially, in emerging markets facing rapid property price inflation; and
- the risks created by a sustained period of low interest rates which could crystallise as and when interest rates return to more normal levels. [Click here](#)

FSA defers implementation of new significant influence controlled functions: In September 2010 the FSA published its proposals to enhance the quality of governance within firms. In particular, the FSA planned to introduce a number of new significant influence controlled functions (SIFs) and to change the scope and definition of some existing SIFs within the approved persons regime. The FSA had expected firms would submit applications or notifications on behalf of individuals to perform these SIFs through the FSA's Online Notifications Applications (ONA). Due to work underway on ONA, the FSA has been unable to complete the necessary work to accept such applications and notifications from 1 May 2011. As a result, the FSA has decided to defer the implementation of the new SIFs until further notice. The FSA has indicated that it will ensure firms have two months' notice of any new implementation date. [Click here](#)

FSA guidance on assessing suitability: The FSA has published finalised guidance on "Assessing suitability: Establishing the risk a customer is willing and able to take and making suitable investment selection". This report considers, in particular:

- how firms establish and check the level of investment risk that retail customers are willing and able to take (in the wider context of the overall suitability assessment);
- the potential causes of failures to provide investment selections that meet the risk a customer is willing and able to take; and
- the role played by risk-profiling and asset-allocation tools, as well as the providers of these tools.

In addition, it contains examples of good and poor practice. The FSA will continue to consider whether firms have acted in accordance with this guidance when carrying out the supervisory assessment, including whether firms have robust procedures, tools and risk category descriptions to establish and check the level of risk a customer is willing and able to take, as well as assessing the suitability of investment selections. [Click here.](#)

FSA's/OFT's/FOS' feedback statement on consumer complaints (emerging risks and mass claims):

The FSA, Office of Fair Trading (OFT) and the Financial Ombudsman Service (FOS) have published a feedback statement setting out how they intend to strengthen coordination on complaints handling in the financial services industry, and their response to the feedback received to March 2010's Discussion Paper (DP) on this topic. Last year's DP proposed a new Coordination Committee of the FSA, OFT and the FOS that would draw together members of their executive teams and meet on a regular basis. Although there are no new requirements for firms, the feedback statement sets out a plan to enhance coordination between regulators and the FOS through this new Coordination Committee to scan for emerging risks including risks with the potential to turn into widespread problems. [Click here](#)

Competition Commission publishes final PPI Order: Following extensive, the Competition Commission has now published the final "Payment Protection Insurance Market Investigation Order 2011" (the Order). The Order contains detailed measures designed to improve competition in the Payment Protection Insurance (PPI) market. Some of the measures being introduced for all forms of PPI (including short-term income protection but excluding retail PPI) include:

- a prohibition on selling PPI at the point of sale of the credit until after seven days after the credit sale or, if later, seven days after the supply of a personal PPI quote (i.e. "point of sale prohibition").
- an obligation to provide a personal PPI quote, setting out the cost of PPI along with details of the cover provided.
- an obligation to provide information in marketing material about the cost of PPI and "key messages", for example, making it clear that PPI is optional and available from other providers.
- an obligation to provide information to the Office of Fair Trading (OFT) and the Consumer Financial Education Body (CFEB) for monitoring and publication;
- a recommendation to the CFEB that it uses the information provided to it to populate its PPI comparison tables.
- an obligation to provide information about claims ratios to any person on request;
- a prohibition on the selling of single-premium PPI policies.
- an obligation to provide an annual review setting out the cost of PPI and including a reminder of the consumer's right to cancel.
- compliance reporting requirements, including commission of independent "mystery shopping" exercises by the largest providers.

In addition, the Order sets out (i) the obligations of providers created by these measures and by the package of remedies for retail PPI, that incorporates some of these measures; and (ii) an obligation to “unbundle” retail PPI from merchandise cover. The Order includes templates for the personal PPI quotes and annual reviews. The Order will come into force from 6 April 2011, although the main obligations will be introduced in two phases. Some of the information requirements will therefore come into force on 1 October 2011 and the point-of-sale prohibition and other measures on 6 April 2012 to allow sufficient implementation time for providers. *Copies of [the Order](#) and related [explanatory note](#) are available.*

Financial Reporting Council publishes New Guidance on Board Effectiveness: The Financial Reporting Council (FRC) has published ‘Guidance on Board Effectiveness’, one of a series of guidance notes issued to assist companies in applying the principles of the UK Corporate Governance Code. The guidance relates to the sections of the Code that deal with leadership and the effectiveness of the board, and addresses issues such as: the roles of the chairman, senior independent director, other directors and the company secretary; decision-making policies and processes; board composition and succession planning; and evaluating the performance of the board and directors. [Click here](#)

European & International News

EIOPA announces results of QIS 5: The European Insurance and Occupational Pensions Authority (EIOPA) has published the results of its fifth quantitative impact study (QIS 5) which assessed the practicability, implications and impact of certain approaches to (re)insurers’ valuation of assets and liabilities, as well as capital setting under Solvency II. Participation in QIS 5 was considerable. Almost 70% of all insurance and reinsurance companies under the scope of the Solvency II Directive participated. Some of the results to QIS 5 include:

- **SCR/MCR.** The financial position of the European insurance and reinsurance sector assessed against the Solvency Capital Requirements (SCR) remains sound. Currently insurance companies who participated in QIS5 hold €395 billion of excess capital to meet their SCR and €676 billion of excess capital to meet their minimum capital requirement (MCR).
- **Calibrations within Solvency II.** These are generally accepted as appropriate, however, EIOPA is already performing additional work, in particular in the areas of non-life and CAT modules in order to enhance these calibrations.
- **Areas requiring further guidance.** EIOPA identified the following areas as requiring further guidance: (i) the design of non-life and health catastrophe risk sub-modules, (ii) the definition of contract boundaries, and (iii) related valuation of deferred taxes and expected profits in future premiums.
- **Areas requiring further attention.** QIS 5 identified the following areas as requiring further attention from the industry in preparing for Solvency II: (i) governance, (ii) risk management, and (iii) reporting requirements.

EIOPA has concluded that transitional measures are needed to ensure a smooth transition from Solvency I to Solvency II in relation to the following three areas: (i) equivalence with third countries, (ii) treatment of hybrid capital and (iii) subordinated liabilities and discount rates on technical provisions.

The FSA has also published the “FSA UK Country Report” in respect of QIS 5.

Copies of the [report](#) and [FSA response](#) are available.

EIOPA launches Europe-wide insurance stress test: The European Insurance and Occupational Pensions Authority (EIOPA) has launched its second Europe-wide stress test for the insurance sector. The stress test is designed to assess the strength of individual institutions and to evaluate the stability of the insurance sector. It is conducted in cooperation with the respective national supervisory authorities and will be carried out between 23 March 2011 and the end of May 2011, based on 2010 financial results. The stress test is expected to include at least 50% of insurance companies per country measured by gross premium income. [Click here](#)

European Commission publishes proposal for a Mortgage Directive: Following a long series of consultation papers and green papers since 2005, the European Commission on 31 March published a proposed directive on Mortgage Credit. It sets out rules on the distribution and conduct of business for the EU residential mortgage market, with rules covering advice standards, responsible lending, general conduct of business obligations, pre-contractual information, intermediary status, cross-border database access, and standardised annual percentage rate formula, and minimum competence requirements for

those selling mortgages (or overseeing their sale). The Directive will now be debated in the European Council and the European Parliament with a view to adopting it within a year, for national implementation two years later. Click for: [proposed directive](#) and [press release](#).

FSA/HMT Response to PRIPS: The European Commission has published the responses it received to its consultation on Packaged Retail Investment Products (PRIPs). The FSA/HM Treasury's (the UK authorities') response was among them. The UK authorities' response stated that they welcomed the close attention given to these products and hoped that it will contribute towards a more level playing field to adequately protect consumers through higher standards of disclosure and conduct. The UK authorities also suggested that the UK's successful use of approaches drawn from the Markets in Financial Instruments Directive (MiFID) in non-MiFID sectors such as PRIPs may provide useful material for the Commission to consider in bringing about greater consumer awareness, choice and competition across Europe. [Click here](#)

UK Government response to Commission consultation on the Single Market Act: Following the European Commission consultation on the Single Market Act, the UK Government has now published its response to the consultation entitled "*European Commission Consultation on the Single Market Act – UK Government Response*". The document sets out the UK Government's strategy for reforming the single market and promotes reforms in the financial services area. [Click here](#)

Industry News

ABI provides advice on Solvency II internal model approval process: The Association of British Insurers (ABI) has released a paper, with FSA support, that clarifies the new internal model approval process (IMAP). It is the first in a series of papers prepared by the ABI designed to help insurance companies comply with the requirements of Solvency II. The paper provides guidance on the documentation process, application of assessment criteria, the use of expert judgment and issues relating to materiality and proportionality, IMAP timelines, audit requirements, the use of external models and third party providers. [Click here](#)

Consumer Panel calls for a clear vision on consumer protection: Adam Phillips, Chairman of the Financial Services Consumer Panel, has called for the FCA to have a clear vision of its role in providing consumer protection. In a speech at the British Bankers Association, Mr Phillips set out five tests for a successful regulator. These include giving adequate weight to consumer protection; earlier and stronger action and greater transparency; use of effective competition to deliver good consumer outcomes; an assertive FCA capable of challenging the Bank of England; and effective consumer representation across the new regulatory structure. [Click here](#)

Consultations

Ministry of Justice consultation on solving disputes in the county courts: The Ministry of Justice has launched a consultation which puts forward significant changes to the civil justice system and builds on Lord Jackson's review of the costs of civil litigation and Lord Young's review of health and safety. Proposals include ending the recoverability of success fees and associated costs in 'no win no fee' conditional fee agreements, and introducing 'contingency fees' (where lawyers can take a proportion of the claimants' damages in fees if they are successful). *Closing date: 30 June 2011* [Click here](#)

Equality Act 2010: Banning age discrimination in services, public functions and associations - A consultation on proposed exceptions to the ban: The Equality Act 2010, which received Royal Assent in April 2010, includes provisions enabling a ban on age discrimination in the provision of services and public functions. The Act requires secondary legislation to be made setting out the circumstances in which it would remain lawful to use age as a reason for treating people differently. The Government Equalities Office has published a consultation "*Equality Act 2010: Banning age discrimination in services, public functions and associations - A consultation on proposed exceptions to the ban*" which includes a proposed exception to the ban for financial services. This would permit age to be used in the assessment of risk when providing financial products or services. *Closing date: 25 May 2011.* [Click here](#)

Government plan to merge the Office of Fair Trading and the Competition Commission: The Department for Business, Innovation and Skills has launched a consultation on the merger of the Office of Fair Trading and the Competition Commission to create a single body responsible for competition. It is

hoped that the new Competition and Markets Authority will reduce the duplication of costs and will increase industry confidence in the system. *Closing date: 13 June 2011.* [Click here](#)

Appointments

The **Association of British Insurers** has appointed **Otto Thoresen** as its new **Director General**. Mr Thoresen will take up the role on April 4 and joins from Aegon where he was Chief Executive.

Kay Blair, Vice Chair of the Financial Services Consumer Panel, has been appointed **as a consumer representative on the Insurance and Reinsurance Stakeholder Group of the European Insurance and Occupational Pensions Authority (EIOPA)**.

FSA insurance sector director **Ken Hogg** is leaving the regulator to **join reinsurer RGA as chief actuary and financial officer for the UK**. Mr Hogg will take up his role at RGA on June 1, and his last day at the FSA will be March 31.

John Sutherland, former Chief Executive Officer of Stroud and Swindon Building Society has been appointed as a **Senior Adviser at the FSA on the building society sector**.

The Treasury has announced the appointment of **Ben Broadbent to succeed Andrew Sentance as external member on the Monetary Policy Committee**. Broadbent has been Senior European Economist at Goldman Sachs since 2000 and Managing Director since 2006. The appointment will take effect on 1 June 2011.

The **ifs School of Finance** has appointed Bank of England executive director of markets **Dr Paul Fisher as its new chairman**. Dr Fisher replaces Bruce Carnegie-Brown, who stepped into the chairman role on an interim basis.

The **Financial Services Consumer Panel** has announced **two new appointments** to take effect in April 2011, and the retirement of one of its long-standing members. **Teresa Fritz (from Which?) and Pamela Meadows (from the Policy Studies Institute) will join the Panel with effect from 1st April 2011. Tony Hetherington will be retiring** from the Consumer Panel at the end of March 2011 having reached the end of his term.

2011 Forward Look

April:

CFEB rebranded as Money Advice Service (4th)

Parliamentary Easter recess begins (5th)

The requirement to purchase an annuity by age 75 comes to an end (6th)

Department for Work and Pensions consultation on Regulatory differences between occupational and workplace personal pensions closes (18th)

Deadline for reply to FSA discussion paper on product intervention. (21st)

Parliamentary Easter recess ends (26th)

Insight

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