

# REGULATION NEWSLETTER FOR INTERMEDIARIES

Monday 10th to Friday 14th August 2009

Welcome to the weekly regulation newsletter designed specifically for intermediaries. This newsletter is compiled by IFact Services and includes regulatory and topical information relating to Independent Financial Advisers, General Insurance and Mortgage and Home Finance Advisers.



## Policy Statement PS09/15 - Reforming remuneration practices in financial services

Financial Services Authority

[http://www.fsa.gov.uk/pubs/policy/ps09\\_15.pdf](http://www.fsa.gov.uk/pubs/policy/ps09_15.pdf)

The Financial Services Authority (FSA) has introduced a new code that will require large banks, building societies and broker dealers in the UK to establish, implement and maintain remuneration policies consistent with effective risk management. The new code is designed to achieve two objectives: firstly, that boards focus more closely on ensuring that the total amount distributed by a firm is consistent with good risk management and sustainability; and secondly that individual compensation practices provide the right incentives.

Eight principles have also been added to the FSA's handbook to ensure firms understand how the FSA will assess compliance. The code makes clear that it is not expected that firms will enter into contracts with individuals which provide guaranteed bonuses for more than one year. It is also expected that for senior employees two-thirds of bonuses will be spread over three years. Firms are expected to provide the FSA with a remuneration policy statement by the end of October. This will have to be signed off by remuneration committees and will enable the FSA to check compliance with the code. Non-compliant firms could face enforcement action or ultimately, be forced to hold additional capital should they pursue risky processes.

Hector Sants, FSA chief executive, said: "The FSA is determined that banks' remuneration policies should be consistent with, and promote, effective risk management. The new rules and code of practice, which will take effect from January, next year, are aimed at achieving this. "Whilst there is general international agreement on the need for supervisory action on remuneration policies and practices we will be the first major financial regulator to take this step. We think that it is important to have rules in place for 2010."

The rule and code are consistent with the recommendations of the Financial Stability Board and with the measures being considered by others such as Switzerland and the EU. International negotiations on common guidelines should be concluded in the first half of 2010.

## Handbook Publication - Handbook Notice 91

Financial Services Authority

[http://www.fsa.gov.uk/pubs/handbook/hb\\_notice91.pdf](http://www.fsa.gov.uk/pubs/handbook/hb_notice91.pdf)

This Handbook Notice introduces the Handbook and other material made by the FSA Board under its legislative powers on 11th August 2009. The FSA Board made changes to the Handbook in one instrument which was to implement a Remuneration Code which will apply to large banks, building societies and broker dealers from 1 January 2010. Click on the link above to view the notice.

[www.qbeeurope.com/pi](http://www.qbeeurope.com/pi)  
tel: 020 7105 4000  
e-mail: [enquiries@uk.qbe.com](mailto:enquiries@uk.qbe.com)

## Statement - Wider Implications referral: Lehmans-backed structured products - update

Financial Services Authority

[http://www.widerimplications.info/case\\_studies/wi\\_13.html](http://www.widerimplications.info/case_studies/wi_13.html)

Since Lehman Brothers' collapse in September 2008, the Financial Services Authority (FSA) and Financial Ombudsman Service (the Ombudsman) have been looking at the potential detriment this has caused for investors in the UK structured products market. In May, the FSA and Ombudsman agreed that the issues relating to Lehmans-backed structured products should be considered under the "Wider Implications" process in order to allow the FSA to explore all options to achieve the best outcome for consumers.

The FSA committed to update the Ombudsman three months into its review, and has provided this update. Although the FSA has completed several elements of its work, it has asked the Ombudsman to continue to defer its consideration of complaints by a further three months to allow the FSA to consider the remaining aspects. The FSA's update, and additional information on this Wider Implications referral, can be found on the Wider Implications website by clicking on the link above.

## Final Notice - Colin William Wright

Financial Services Authority

[http://www.fsa.gov.uk/pubs/final/colin\\_wright.pdf](http://www.fsa.gov.uk/pubs/final/colin_wright.pdf)

The FSA has issued a Final Notice to the above following a Decision Notice on 8 July 2009. The FSA decided to make an order prohibiting him from performing any function in relation to any regulated activity carried on by any authorised person, exempt person or exempt professional firm. The FSA concluded that he was not a fit and proper person to perform any functions as his conduct demonstrated a lack of honesty and integrity. Specifically, on 12 November 2008, he was convicted of a money laundering offence.

## Final Notice - Cavendish Financial Services Limited

Financial Services Authority

[http://www.fsa.gov.uk/pubs/final/cavendish\\_120809.pdf](http://www.fsa.gov.uk/pubs/final/cavendish_120809.pdf)

The FSA has issued a Final Notice to the above. The firm failed to pay fees of £1,479.92 owed to the FSA, despite repeated requests that it do so.

## Final Notice - Sandie Gillam trading as S G Mortgages

Financial Services Authority

[http://www.fsa.gov.uk/pubs/final/sandie\\_gillam.pdf](http://www.fsa.gov.uk/pubs/final/sandie_gillam.pdf)

The FSA has issued a Final Notice to the above cancelling their permissions. The firm has not conducted any regulated activity since June 2007 and has not provided any specific plans to begin such activities in the near future. The FSA is authorised to cancel an authorised person's permission where such a person has failed, during a period of at least 12 months, to conduct any regulated activity for which he has Part IV permission.

[www.qbeeurope.com/pi](http://www.qbeeurope.com/pi)  
tel: 020 7105 4000  
e-mail: [enquiries@uk.qbe.com](mailto:enquiries@uk.qbe.com)

## New Web Page

Financial Services Authority

[http://www.fsa.gov.uk/pages/Library/Other\\_publications/Miscellaneous/2009/guidance.shtml](http://www.fsa.gov.uk/pages/Library/Other_publications/Miscellaneous/2009/guidance.shtml)

The Financial Services Authority (FSA) has restated its approach to giving guidance and the status of guidance. In Chapter 2 of the FSA's Enforcement Guide, the FSA make clear that their approach to regulation and enforcement involves a combination of high-level principles, detailed rules, guidance and supporting material, with an increasing emphasis on the FSA's Principles for Businesses ('the Principles'). This new web page answers the following questions:

1. When does the FSA issue guidance or supporting material?
2. Can firms rely on the FSA's guidance and supporting material?
3. Are guidance and supporting material binding on firms?
4. What about "level 3" material produced by the European committees of regulators?

## From the CML - Possessions fall and arrears flatten in second quarter

Council of Mortgage Lenders

<http://www.cml.org.uk/cml/media/press/2357>

Statistics published by the Council of Mortgage Lenders show that the number of mortgage possessions fell in the second quarter of the year, while cases of arrears levelled off. A combination of factors has helped keep mortgage arrears and possessions in check, despite the recession. Most importantly, lenders are showing forbearance to borrowers where customers are trying to resolve their payment problems and have a realistic chance of doing so. Low interest rates are helping ensure that arrears grow less quickly, giving borrowers a better chance of getting back on track and lenders more scope to extend forbearance. And government schemes are providing some help for borrowers in difficulty by promoting early communication between borrowers, lenders and debt advisers.

But while the figures reflect the efforts being made to manage mortgage arrears and avoid possession if possible, there can be no complacency about the potential scale of future payment problems. While the economy remains weak and with unemployment still growing, arrears and possessions are likely to rise in the second half of the year. The figures show that there were 11,400 cases of possession (equivalent to one mortgage in 1,000) in the second quarter of 2009, 10% fewer than the 12,700 in the first quarter of the year but 14% more than the 10,000 cases of possession in the second quarter of last year.

The data also shows only a modest deterioration in arrears during the second quarter. As at mid-year, the number of loans in arrears by 2.5% or more of the outstanding mortgage balance totalled 205,600 (1.85% of all loans). That compares with a total of 203,900 at the end of the first quarter, and 139,700 at the end of the second quarter of 2008.

The level of arrears of three months or more is somewhat higher. This is partly because earlier sharp falls in interest rates continue to inflate the number of monthly payments that a given monetary amount of arrears represents. But again the increase over the quarter was limited. At the end of June, the number of three months-plus cases stood at 270,400 (2.43% of mortgages), compared with 264,700 (2.38%) in the first quarter and 152,700 in the second quarter of 2008.

The figures mean that the total number of possessions in the first half of 2009 stands at 24,100, compared with the CML's forecast for the whole year of 65,000. The half-year total of 205,600 mortgages in arrears by 2.5% or more of the outstanding mortgage balance compares with the CML's forecast of a total of 360,000 by the year's end. In June, the CML revised downwards their expectations for arrears and possessions for the year as a whole, and they will continue to monitor developments and keep their forecasts under review.

[www.qbeeurope.com/pi](http://www.qbeeurope.com/pi)  
tel: 020 7105 4000  
e-mail: [enquiries@uk.qbe.com](mailto:enquiries@uk.qbe.com)

## From the CML - Market stabilising but not yet 'normal'

Council of Mortgage Lenders

<http://www.cml.org.uk/cml/media/press/2354>

New data from the Council of Mortgage Lenders shows further signs of stabilisation in the mortgage market, but transactions are still weak on a historic basis. Lending for house purchase and remortgaging both increased in June, albeit from very low levels. There were 45,000 house purchase loans, worth £5.9 billion, up 23% from 36,500 loans in May. However, this is less than half the average number of loans in June over the last seven years. A total of 116,700 house purchase loans were advanced in the second quarter, a 50% increase from the preceding three months but down 22% from the second quarter of 2008.

The number of loans for remortgage increased by 13% from May to 34,000 loans in June. But low interest rates have dampened demand for remortgaging in the second quarter with 96,000 remortgage loans, a 21% fall from 122,000 in the previous quarter. Fixed rate deals have increased in take-up throughout the second quarter and by June made up 78% of new lending, the largest share since June 2007. This appears to be supply-driven, reflecting the more widespread availability of fixed-rate products in the marketplace.

There were 17,200 loans to first-time buyers worth £1.9 billion, up from 13,700 loans in May but below the 18,400 in June last year. There were 27,800 loans to home movers worth £4 billion, up from 22,700 in May but down from 29,500 in June last year. Affordability measures for homebuyers were broadly static in June, but the tightening in criteria since the onset of the credit crunch appears to have ended. The typical first-time buyer had a 25% deposit, unchanged since February. Home movers typically borrowed 69% of the property's value, unchanged from April. Income multiples have also started to increase modestly, with the typical first-time buyer borrowing 3.08 times their income, compared to 3.04 in May, and home movers typically borrowing 2.76, compared with 2.74 in May.

## From the ABI - Wake-up pack research shows good understanding, but more work needed

Association of British Insurers

<http://www.abi.org.uk/Media/Releases/2009/08/42940.pdf>

The ABI has published the results of consumer research into the wake-up packs received by defined contribution pension savers six months before retirement. The packs contain important information on the options for buying an annuity, including the right to shop around using the Open Market Option (OMO).

71% of participants who read the pack said it gave them a better understanding of their options at retirement, and awareness of the right to shop around increased from 62% to 82% after reading it. However, of those participants who remembered receiving the pack, 58% had just skimmed it or hadn't yet read it at all. The research was designed to measure feedback following improvements made to customer communications in 2008. The survey forms part of a wider industry effort to improve customer engagement with pension savings and retirement planning, including new processes to simplify and speed-up the OMO transfer process.

Maggie Craig, the ABI's Director of Life and Savings, said: "It's encouraging that overall, the wake-up packs are considered to be useful and informative. The fact that the packs informed people about both the right to shop around, and the availability of different types of annuity, shows that the industry is getting better at communicating these important messages to consumers. The pensions industry is committed to providing clear and helpful information to customers as they approach retirement, and this research will help us make further improvements. Keeping communications short and simple clearly helps, but the best way to ensure customers get best value from their pension savings is to raise awareness and encourage engagement earlier in their working lives. The ABI is working with members towards this important objective."

[www.qbeeurope.com/pi](http://www.qbeeurope.com/pi)  
tel: 020 7105 4000  
e-mail: [enquiries@uk.qbe.com](mailto:enquiries@uk.qbe.com)

## Important notice

QBE Insurance (Europe) Limited and any of its associated companies and contractors ("QBE") shall not be liable for any losses or damages whatsoever, whether in contract, tort (including negligence except in the case of death or personal injury) or otherwise arising from use of or reliance on information in, derived from or absent from this Newsletter, or from any delay in receiving or accessing this Newsletter for whatever reason.

QBE does not represent or warrant that access to the Newsletter will be uninterrupted or that there will be no failures, errors or omissions or loss of transmitted information.

QBE shall not be liable to the reader or any third parties for any direct, indirect, special, consequential or punitive damages allegedly sustained arising out of use of or reliance on this Newsletter or any of the information or materials available in it or via the links referred to by it or any subsequent links.

### Third party websites

The Newsletter contains links to websites over which QBE has no control. QBE does not accept responsibility or liability for the operation or content of such websites.

### Applicable law

The Newsletter (including these terms) shall be governed by English law. The English courts shall have exclusive jurisdiction over any disputes arising in connection with the Newsletter.

## Complimentary Helpdesk

Should you require further information or have questions relating to this update or any regulatory issues, QBE has arranged for IFACT Services Ltd to provide a complimentary telephone service to assist intermediaries.

IFACT can be contacted at:

Telephone Number: 08456 121211  
Email: [queries@ifact.co.uk](mailto:queries@ifact.co.uk)  
Website: [www.ifact.co.uk](http://www.ifact.co.uk)

QBE PI is a combination of the professional indemnity strengths and capabilities of the market leading DA Constable Syndicate 386 and QBE Insurance (Europe) into one specialist team. With over 30 years experience combined, QBE PI is the largest professional indemnity team in the market offering a broad range of flexible solutions to suit the needs of brokers and clients - from major multinational to sole practitioners. QBE PI has been structured to provide the most effective underwriting and claims service reflecting the diversity of our clients' size and professions. Our four underwriting units provide comprehensive insurance solutions across the spectrum of client sizes and buying preferences. For more information, visit [www.QBEurope.com/pi](http://www.QBEurope.com/pi)

[www.qbeurope.com/pi](http://www.qbeurope.com/pi)  
tel: 020 7105 4000  
e-mail: [enquiries@uk.qbe.com](mailto:enquiries@uk.qbe.com)