

June 2008



This newsletter provides a summary of CP08/11. Please see the section 'Who should read this paper?' to see if CP08/11 is relevant to you.

Financial Services Authority

With-profits funds – compensation and redress

Why are we issuing this Consultation Paper?

The purpose of this Consultation Paper (CP) is to present for consultation a proposed change to our rules in our New Conduct of Business sourcebook (COBS) which relates to the charges that can be made to with-profits funds. It fulfils a commitment we have made both in correspondence to interested parties as well as in our 2008/09 Business Plan.

Who should read the full paper?

This CP will be directly relevant to proprietary life insurance firms writing with-profits business or with existing books of with-profits business. It will also be of interest to other life insurance firms and friendly societies with similar interests in with-profits business.

What is the background to this?

Our rules currently allow proprietary firms running with-profits funds to charge payments for compensation and redress in relation to their past and present policies in these funds to their inherited estates. We are persuaded that this may not lead to the intended outcome of COBS 20.2, which is that firms treat with-profits policyholders fairly.

The current rules do not permit proprietary firms to pay financial penalties (fines) from a long-term insurance fund, and we propose to leave this position unchanged.

We do not believe the rules as they stand provide sufficient incentive for proprietary firms to address failures of systems and controls and, as a result, with-profits policyholders may not be treated fairly. We take the view that shareholders alone should bear the risk of such management failures. This is already the case in relation to non-profit business such as unit-linked business that is not written in a with-profits fund.

Is this of interest to consumers?

This proposal is relevant to consumers and consumer groups as it may affect the level of bonus or compensation they may receive in the event of a distribution or a reattribution.

What happens next?

This consultation will close on 3 September 2008. We will then finalise the draft rule in light of responses to this CP and publish a Policy Statement giving feedback before the end of the year.

This newsletter summarises Consultation Paper 08/11. The Financial Services Authority invites comments on this CP. Comments should reach us by 3 September.

Comments may be sent by electronic submission using the form on the FSA's website at (www.fsa.gov.uk/pages/library/policy/cp/2008/cp08_11_response.shtml).

Alternatively, please send comments in writing to:

Peter Morris,
Retail Policy & Themes Division,
The Financial Services Authority,
25 The North Colonnade,
Canary Wharf,
London E14 5HS

Telephone: 020 7066 9572 Fax: 020 7066 9573 E-mail: cp08_11@fsa.gov.uk

It is the FSA's policy to make all responses to formal consultation available for public inspection unless the respondent requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure.

A confidential response may be requested from us under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Tribunal.

How can I get the full paper?

You can download the full Consultation Paper from:

www.fsa.gov.uk/pages/Library/Policy/CP/2008/08_11.shtml

Or you can order hard copies of the paper:

Phone our helpline on **0845 608 2372**, quoting reference **CP08/11**

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