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Feedback

If you have any feedback or suggestions for improving this newsletter please email firmcommunications@fsa.gov.uk

The insurance sector is currently undergoing a great deal of transition, and I recognise the importance of communicating clearly and frequently through a variety of channels. So I am pleased that in my first two months as Director of the FSA's Insurance Division, I have already had the opportunity to address many of you at our recent Solvency II conference. And later this month, I will be speaking to a number of you again at our PRA Launch conference.



Julian Adams
Director,
Insurance Division

At the Solvency II event, I discussed **our approach to implementation**. However, while Solvency II remains a key priority for firms, I would like to remind you that we are aware of the many other pressures facing the sector. And while the Directive is not yet in place, it is still important to operate robust strategic planning and embed appropriate risk management processes now, while still focusing on ensuring customers are treated fairly.

I'd also like to welcome you to this issue of our Life Insurance Newsletter. Inside you'll find links to all the information from our recent Solvency II conference, as well as updates on the recent gender directive judgment and our with-profits consultation paper.

“ *I recognise the importance of communicating clearly and frequently through a variety of channels* ”

I encourage you to use the link above to review my recent speech. I'd be very keen to hear any feedback you have.

Julian Adams
Director, Insurance Division

An overhaul of consumer insurance law

The Government has introduced the **Consumer Insurance (Disclosure and Representations) Bill**, which aims to radically change the relationship between consumers and insurance providers.

The Bill will give certainty to consumers and insurers by shifting the emphasis away from a consumer's duty to disclose all necessary information, to a requirement for insurers to ask particular questions and obtain specific information

about their customers, before they issue an insurance policy.

The current law has changed little since 1906, and, with additional layers of regulation, has become complex and confusing for consumers, and expensive for the industry to administer.

The changes within the Bill, and its shift in emphasis, will provide better protection for consumers, while reducing the cost to industry.

Solvency II – our current thinking

Solvency II Conference

On Monday 18 April we shared our current thinking on Solvency II policy issues and implementation approach with the UK insurance industry at our Solvency II conference.

We:

- outlined our two-tier approach to the way would allocate resources to firms in the pre-application phase of Internal Model Approval Process in our efforts to give firms a decision on their model before implementation on 1 January 2013;
- discussed the main policy uncertainties, which we also set out in the accompanying conference document *Delivering Solvency II* (April 2011);
- outlined the key dates for planning purposes, including our assumptions that full implementation is on 1 January 2013, and we would be open to receive applications on those provisions of the Directive which envisage our approval from 30 March 2012; and
- underlined the importance of the UK industry to continue to be involved with developing the approach to implementation in Europe and the UK. We will do this through several different forums, including the existing Insurance Standing Group and its sub-groups which have over 100 people registered to receive information, and creating new ones as needed.

For conference speeches, presentations and the supporting document *Delivering Solvency II* (April 2011) see our [website](#).

What's coming up later in 2011

Later this year, we will be:

- exploring ways to engage with the industry on implementation of Solvency II, including any related issues;
- piloting the use of external reviews of data management as part of the pre-application phase of IMAP, with a view to rolling this out to firms from July onwards;
- updating the industry on the development of quantitative techniques and tools; and
- preparing the FSA's first Consultation Paper on Solvency II.

Capital instruments

A number of insurance groups have recently issued subordinated debt instruments in a form not only intended to qualify as lower tier 2 under GENPRU, but also to anticipate the Solvency II requirements for Tier 2. Similar capital instruments are also being issued in other Member States.

Anyone issuing these instruments should be aware that Solvency II requirements will cover issuance both by insurers and other group companies. The requirements and criteria at solo and group level will be subject to implementing technical standards. At this time neither issuers, nor the FSA, can confirm that instruments issued before the requirements are finalised will qualify as Tier 2 own funds when Solvency II is implemented.

Improving protection for with-profits policyholders

On 24 February 2011, we published proposals to strengthen our existing rules on **protecting with-profits policyholders**.

Last year we reviewed the way in which firms have met the requirements, introduced in 2005, for the fair treatment of these consumers. Our review identified several concerns about the way in which firms were operating their with-profits funds and treating their policyholders. Our proposals are based on the findings from that review and aim to improve protection for with-profits policyholders.

The consultation period closed on 24 May 2011. We will publish our responses to any comments received, and our policy statement, later in the year.

Assessing suitability – make sure your firm is doing the right thing

The high number of unsuitable investment selections we see in the pensions and investment markets is a significant concern. It is identified as a key emerging risk in this year's *Retail Conduct Risk Outlook* publication and is the subject of a recently published guidance **report**.

This report provides examples of our concerns on how firms establish the risk a customer is willing and able to take and make suitable investment selections. We have also provided examples of good practice to help firms. We expect all types of firms to consider whether they need to improve their practices in this area.

Consumer alert – Asset Income Plan Ltd

We have published a **consumer alert** about a firm called Asset Income Plan Ltd and its product Crossroads because we are concerned that the risks involved for customers are not made clear enough.

The product's promotional material claims that the product pays homeowners an annual income of 5%, based on 50% of the value of their property for a set period of time. To receive this income, the homeowner must allow an insurance company to take a legal charge on their property up to a maximum of 50% of its value. The product information states

that the risk of having to sell their property would only occur if the insurance company became insolvent but, according to promotional literature, due to 'capital risk insurance' cover this risk is reduced.

It is not clear if this is correct and whatever steps may be taken to reduce the likelihood of the firm carrying this out, homeowners may still be at risk.

The product information also explains that Crossroads is not regulated under our rules. This might mean that its advisers and providers do not need to

be authorised by us. While there is not enough information to confirm this at the moment, if it is correct, consumers will not be covered under the Financial Services Compensation Scheme (FSCS) or be able to take any complaint to the Financial Ombudsman Service.

This alert is relevant to all homeowners seeking sources of income to fund their retirement, plus anyone over the age of 18 who owns their property outright.

Gender Directive – current considerations

The Test Achats judgment, handed down on 1 March 2011, has the effect of removing the opt-out within the EU Gender Directive allowing insurers to use gender as a rating factor when pricing risk from 21 December 2012.

The Treasury is leading consideration of local law changes, if any, necessary to comply with this judgment. The full implications for the insurance sector of the judgment cannot be determined until any such changes are agreed.

We are liaising closely with the Treasury and we remain alert to possible consequential risks for the industry and its customers.

FSA priorities and budget for the year ahead

We published our **Business Plan** on 22 March 2011, setting out our priorities for 2011/12, and the implications for our budget. The document outlines our priorities and specific initiatives for the year ahead, which reflect the continuing challenges facing the financial services industry.

Retail Conduct Risk Outlook – key to our new consumer strategy

We recently published our **Retail Conduct Risk Outlook**. It describes our view of key current issues, emerging risks and potential concerns to consumers posed by financial services firms. It is a key component of our new consumer strategy and is designed to increase awareness of retail risks, help prevent widespread detriment, and to inform our supervisory focus.

We provide an overview of the key risks we see in the market, for example, in relation to payment protection insurance.

If you have any feedback, please contact us at **Conduct Risk**.

Prudential Risk Outlook – the economic context to our regulation

We published our **Prudential Risk Outlook** on 17 March 2011, setting out our assessment of macroeconomic and financial trends as a context for our micro-prudential regulation and supervision of firms.

Speeches

Hector Sants,
18 April 2011,
Solvency II in context

Julian Adams,
18 April 2011,
The FSA's approach to the implementation of Solvency II

Hector Sants,
9 February 2011,
The future of insurance regulation