

# FINANCIAL PROMOTIONS MORTGAGE & GENERAL INSURANCE BULLETIN

FEBRUARY 2005



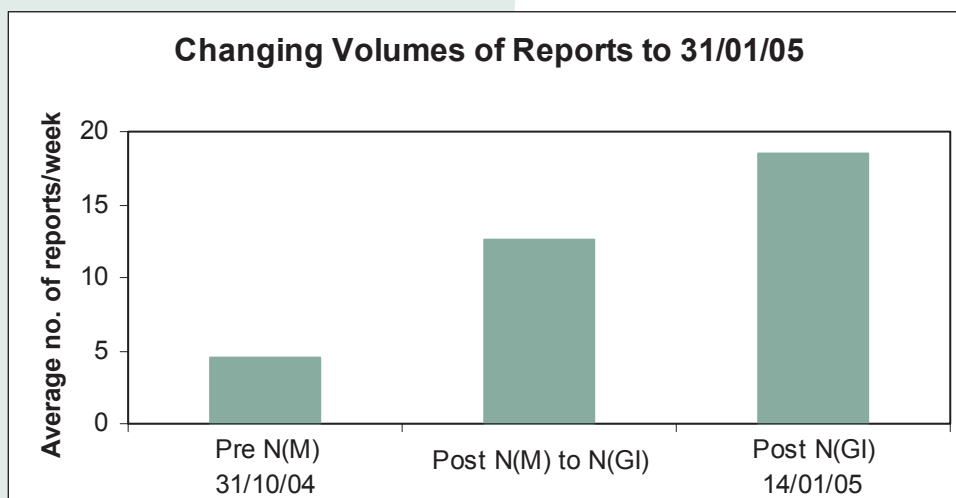
*Welcome to the first of our industry bulletins aimed specifically at mortgage and general insurance firms. We will publish these on a quarterly basis and we hope you will find them useful in helping you comply with our rules. These bulletins are one of the many tools available to us in the regulation of financial promotions, including taking appropriate regulatory action where necessary. In these bulletins, we will: highlight feedback from visits to firms; include lessons learnt from our monitoring and theme work; and give you updates on our Financial Promotions Hotline.*

*You can find out more about all of these by looking on our website.*

*This first bulletin will primarily interest those in the mortgage industry. As our monitoring and thematic work in the general insurance area increases, we will use future bulletins to update you on that too.*

## The Financial Promotions Hotline

**We launched the Hotline on 6 July 2004. Having a dedicated phone line and a form on our website makes it easier for firms and consumers to report promotions they believe are misleading. As you can see below, the number of calls we receive each week has been increasing steadily.**



You will find more sector specific statistics throughout this bulletin.

## What is a financial promotion?

A financial promotion is defined as 'an invitation or inducement to engage in investment activity' communicated in the course of business. Chapter 3 of the Mortgage Conduct of Business sourcebook (MCOB 3) applies to 'any firm who communicates or approves a qualifying credit promotion'. The scope of a qualifying credit promotion is wider than the definition of a 'regulated mortgage contract'. It applies if the lender is a person who is authorised to enter into or administer 'regulated mortgage contracts' and the loan is secured on land. This means that second-charge loans by an authorised lender are within the MCOB 3 regime – for example, products such as debt consolidation loans by such lenders are covered. Promotions that promote the services of an adviser or broker with regard to qualifying credit are also covered by MCOB 3 provisions.

## Points to consider when creating a qualifying credit promotion

Since N(M) – 31 October 2004, when we began regulating mortgage business – we have been looking at qualifying credit promotions in both our regular monitoring and thematic work. We have noted a number of common issues, some of which are set out below. You will find more of these on our website – including issues regarding: APRs, fee information and websites.

### Prominence:

- There are specific rules in MCOB 3 (3.6.11R, 3.6.13R, 3.6.17R, 3.6.25R, 3.6.26R and 3.6.27R) that mention 'prominence'. We have noted on a significant number of

occasions that – in particular – risk warnings, APRs and fee information have not, in our view been given sufficient prominence.

### Relevant risk warnings:

- There are prescribed risk warnings which should be used for certain types of products. Firms should take care to ensure they include all the relevant risk warnings (3.6.13R), such as the warning required where the financial promotion refers to paying off unsecured debts. You should also take care to use the correct prescribed wording of the relevant risk warning.

## What do the Hotline statistics actually mean?

The volume of reports made through the Hotline and webform significantly increased following N(M). A substantial majority of new cases were mortgage related and, of these new cases, the majority were reported by regulated firms. As regulated firms generally have greater awareness of the rules than consumers, their reports of non-compliance tend to be more accurate.

Since N(GI) – 14 January 2005, when we began regulating general insurance business – we have only received a small number of general insurance related calls. It is too soon to draw any real conclusions from these. We cannot yet tell whether the volume of new reports made through the Hotline and webform following N(GI) has increased by the same extent as after N(M).

## What sorts of promotions are being reported?

Examples of mortgage financial promotions that have been reported include promotions for: adverse credit mortgages, remortgages, equity release mortgages and mortgage brokers.

The type of general insurance financial promotions that have been reported include promotions for motor and travel insurance.

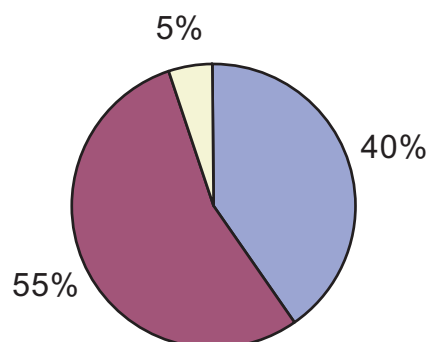
## What sorts of issues are coming up?

Recurring issues with reported non-compliant mortgage financial promotions include: the absence/prominence of APR, incorrect risk warnings/prominence of risk warnings and an ambiguity about fee information.

### Mortgage Hotline Statistics – 1 November 2004 to 31 January 2005

During this period, 117 reports relating to mortgages were made through the Hotline and webform. These amounted to roughly 2 out of 3 of all reports made in that time. Of these 117 reports, we have taken 35 forward as new cases. This represents about 90% of all new cases that have been taken forward from these reports. 55% of the mortgage-related reports and 66% of the mortgage new cases were made by regulated firms.

#### Mortgage-Source of Reports



■ Consumer ■ Regulated Firm □ Not Known

# Mortgage themes

**We are working on several mortgage themes. In the first of these, we have visited some major mortgage lenders and a number of equity release providers and brokers to review their relevant financial promotions.**

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It is still too early to draw any firm conclusions from this work, but we set out below some of the issues we have been looking at. You might like to consider these with regard to your own firm. You will find more on these and other issues on our website. Once we reach final conclusions from this and our other mortgage thematic work, we will update our web pages accordingly.

## Major mortgage lenders – issues we looked at:

- Whether firms with separate compliance and/or internal audit functions encouraged their early involvement in reviewing procedures for financial promotions.
- Whether firms had clear defined responsibility for confirming compliance of financial promotions.

## Equity release – issues we looked at:

- Where a firm outsourced its approval and compliance monitoring, whether it had systems and controls in place to ensure it functioned adequately.
- Whether financial promotions were sufficiently balanced – or whether they placed emphasis on the benefits, without giving sufficient prominence to the drawbacks.