

December Newsletter
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Editorial

So have any of your directors asked the question 'what would it take to make our business fail'? Whilst some may think the answer is obvious, what would it take – a loss of income of 30%, an adverse change in rates of exchange, a combination of both, or other factors? Stress testing can help a business plan for particular events occurring. Whilst it won't stop the events occurring, it will put firms in a better position to deal with it if such scenarios do occur and this is where the FSA expects firms to plan for 'stressed conditions'.

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Further information on the issues in this newsletter, or any other issues which concern your business, can be obtained from

Chris Keene on
020 7369 5375 /
07775 610006

FSA strengthens stress testing regime

The FSA has strengthened its stress testing regime by requiring firms to improve their stress testing capability, enhance their capital planning stress testing and by introducing a reverse stress testing requirement for firms. Its integrated approach to stress testing consists of three main elements:

Firms' own stress testing – The FSA expects firms to develop, implement and action a robust and effective stress testing programme which assesses their ability to meet capital and liquidity requirements in stressed conditions, as a key component of effective risk management

FSA stress testing of specific firms – As part of its more intrusive supervisory approach the FSA runs its own stress tests on a periodic basis for a number of firms. This is carried out regularly for specific high impact firms and for other firms as the need arises, to assess their ability to meet minimum specified capital levels throughout a stress period.

Simultaneous system-wide stress testing – This is undertaken by firms using a common scenario for the purposes of specific system-wide analysis for financial stability purposes. The FSA will be recommending scenarios to help firms improve capital planning in 2010.

The FSA is taking steps now to strengthen all elements of its stress testing approach although the changes mentioned in this policy statement refer to firms' own stress testing.

Firms should note that whilst this area would appear to apply to larger

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financial institutions there are some simple scenarios that smaller firms could use to test how robust the capital of the firm is to absorb certain events/losses. For example, examining the effects that losing a major account or experiencing an overall drop in rates/loss in income would have on your capital base. The key issue is to be able to identify those scenarios that could affect the profitability of the business.

FSA statement on remuneration

The FSA has published the summarised feedback it received on whether to extend its code on remuneration policies to other FSA-authorised firms.

Its remuneration code comes into force for large banks, building societies and broker dealers on 1 January 2010. It will apply to any remuneration awards made by these firms for the 2009 performance year.

The March consultation paper invited general discussion on whether the code should be extended to other FSA-authorised firms. At this stage the FSA has decided not to introduce any new rules and will not extend the rules to other sectors. The FSA's supervisory focus is on ensuring that the firms which are within the initial scope of the remuneration code are fully compliant from 1 January 2010.

Insurance broker banned from concealing criminal record from FSA

The FSA has banned two Leytonstone insurance brokers, Faraz Ahmed Siddique and Waqas Ahmed Siddique, for lying to cover up Waqas Siddique's criminal conviction.

Waqas Siddique was charged with conspiracy to defraud in March 2007. One month later he applied for individual approval to perform controlled functions at Aston Sterling Insurance Services Limited (Aston Sterling). On his FSA application, he signed a declaration that he had no previous criminal convictions and was not the subject of any current criminal proceedings.

After Waqas Siddique's conviction in June 2008, Faraz Siddique, told the FSA that his brother had resigned. He then applied to take over the controlled functions, but at no point did Faraz Siddique notify the FSA of his brother's criminal conviction, despite being aware that this was the reason for his brother's resignation from Aston Sterling.

Whilst this is a particularly serious case of non disclosure it serves to highlight the importance of ensuring that all documentation in relation to approved person process should be completed honestly and accurately – full and frank disclosure is required!

The FSA's view of the current insurance intermediary market

Jeremy Heales, Head of Mortgages & Insurance at the FSA gave a speech at the BIBA Scotland conference. Here are some of the interesting points from his speech:

1) The FSA carried out a review of price comparison websites last year, including a number of supervisory visits, looking at some of the concerns that BIBA had brought to its attention. There has been some improvement in the areas where it expressed concerns – for example, providing clearer information on policies to consumers. But, the FSA will continue to closely monitor developments.

2) As a result of market conditions there have been increasing numbers of firms becoming appointed

representatives, which includes some who were previously directly authorised firms. The effect has been an increase in the size of some networks.

The FSA wants networks which have expanded over this time to ask themselves whether they can still provide sufficient controls and management oversight in their business. Can they be sure about the quality and suitability of advice being given to clients? Are these clients being treated fairly?

3) Regulatory approach to small firms

There are areas where the FSA has already pressed ahead with regulatory changes and some of this is already impacting on firms. It is taking a more intensive and intrusive supervision of the industry, which is a marked change from the past and is part of the substance behind the declaration from the Chief Executive earlier this year that 'people should be frightened of the FSA'. However it noted that if a firm engages with the FSA, works with them to maintain a sound financial footing and conducts its business with the ultimate aim of treating their customers fairly, then, it should not need to be frightened of the FSA. But if this doesn't happen firms will face more intensive and intrusive supervision and action will be taken where necessary. The intensive supervision is being applied to insurance intermediaries through the FSA's Assessment Programme, where it looks at how firms conduct their business, and its work to examine firms' financial strength and resources.

4) Assessment Programme

The Assessment Programme is used to assess whether small firms including general insurance brokers have been treating their customers fairly. The FSA is over half way through the three-year programme,

which has been carried out on a regional basis across the UK.

The Programme has given the FSA the chance to supervise smaller firms more intensively through the increased level of direct contact with them at road shows, assessments, supervision visits and regional education programme events.

5) Financial management

The FSA is looking much closer at the financial information that firms provide to them. It made clear the importance of giving accurate information on the firm's finances when reporting information to them. The FSA relies on it being accurate to regulate effectively and to target its resources efficiently.

It is important that the firms' senior management and the systems and controls they have in place are able to manage their financial affairs and report accurately.

We would like to wish you all a very Happy and Prosperous 2010.

