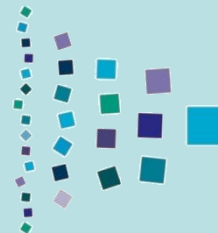


PROTECT

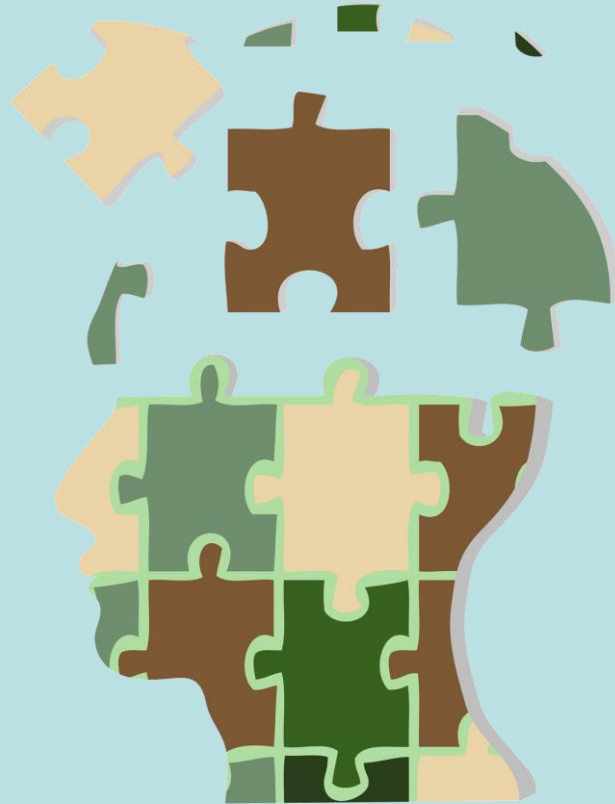
Legal and Regulatory Review

March 2020

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The Regulatory Jigsaw



There is an awful lot going on

- Value Measures
- Value in GI Distribution
- Increased focus on Product Oversight and Governance
- New (and wider) Senior Management responsibilities
- The Customer's Best Interests
- A duty of care?
- Continuing concern as to culture
- A worry about low customer engagement
- . . . and Brexit

It is difficult to navigate a way forward



From where I sit



I see

- A regulatory pincer movement leading to . .
- Withdrawal of underwriters
- Withdrawal of distributors
- Widespread business closures and redundancies
- Financial and personal stress amongst the “survivors”
- Few (if any) progressive developments

It doesn't matter whether you are here

- As an insurance professional; or
- As a supplier to the market



You need to be very clear indeed

- That the FCA's attack on your market is increasing and will be relentless
- You need to understand exactly what the regulatory (and political) game plan is
- Then you need to decide whether to play to the new rules or get out

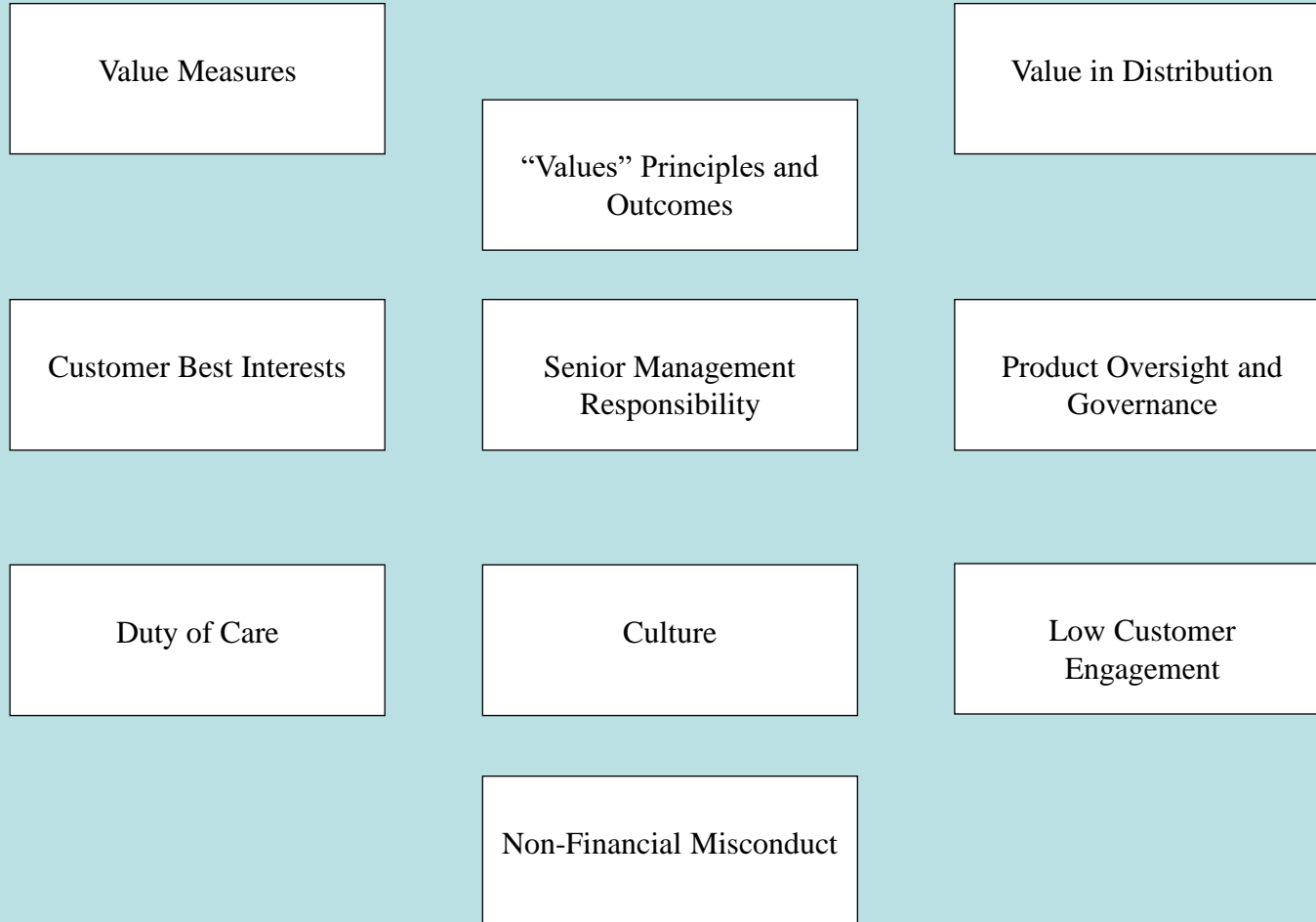
To do THAT

- You need understand all the pieces in the regulatory jigsaw
- You need to even more understand exactly how they all fit together
- Generally we tend to look at each regulatory/compliance initiative from the FCA as a separate jigsaw piece
- Actually they are nearly all exactly the same piece – produced time after time

It is the overload which confuses and intimidates



Here are the jigsaw pieces



How on earth do they fit together

To facilitate a viable GI
business activity in 2020?



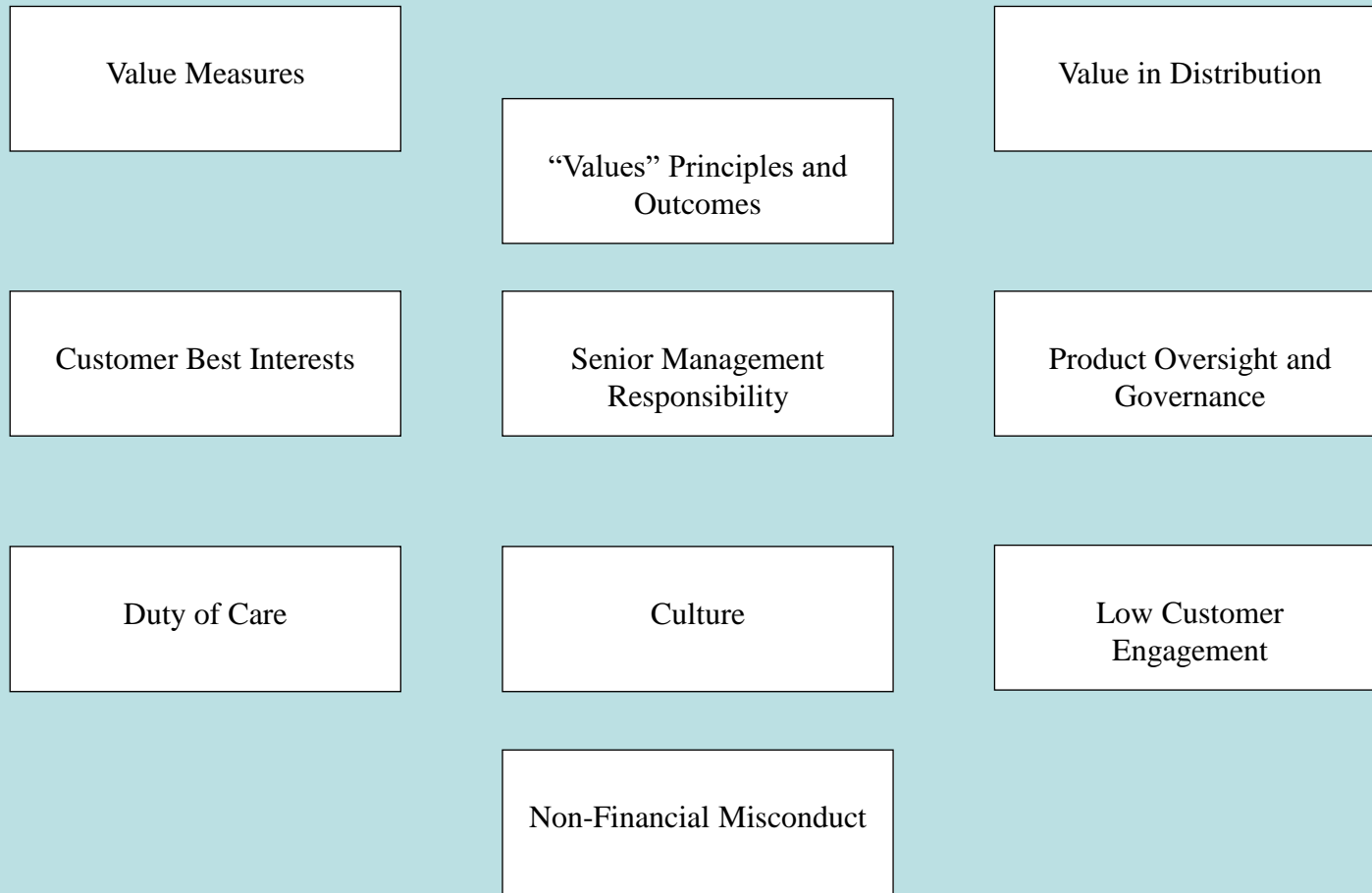
So far as the FCA is concerned

- All the pieces are designed to fit together
- Any firm with:-
 - The right cultures; and
 - The right values; with
 - The right products; and
 - The right processes to target . .
 - The right customers; within
 - The right distribution
- can complete the regulatory jigsaw with ease – and sell lots of insurance to very happy customers

So why does the protection market find this
so difficult?



The answer is in the pieces of “our” jigsaw – nearly everything is wrong



None of this is new – just look at the TCF Outcomes . . .

- **Outcome 1:** Consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the **corporate culture**
- **Outcome 2:** Products and services marketed and sold in the retail market are **designed** to **meet the needs** of identified consumer groups and are **targeted** accordingly
- **Outcome 3:** Consumers are provided with **clear information** and are **kept** appropriately **informed** before, during and after the point of sale
- **Outcome 5:** Consumers are provided with **products that perform as firms have led them to expect**, and the associated service is of an acceptable standard and as they have been led to expect

Those are over ten years old

- Have senior management of protection firms:-
 - shifted their culture away from business strategy primarily focused on profit ?
 - totally redesigned their products and distribution to meet best customers' best interests?
 - Focused on the incredibly low understanding and engagement which customers have about insurance?
 - Consistently deliver on what the customer would expect from the product irrespective of T&Cs?
- I don't think very many have – and that is why . . .

So many . . .



It is time . .

- To go back to basics
- First – make sure that senior management actually understand the pieces of the jigsaw
- That means their engaging with regulation and the outcomes which it is seeking
- The good senior management engage with me – the bad ones leave it to the compliance manger
- That is a crucial mistake to make
- Am I the only one saying this?

Mark Steward – FCA Executive Director of Enforcement



Penalties, remediation, and our General Principles – 13 February

*“most of the cases involving financial penalties have involved serious breaches of the General Principles. In these cases too little attention is paid to the General Principles in planning and organising what a firm is doing. **Firms need to engage with the Principles when undertaking regulated activities**”.*

The Principles?

- The Principles for Business
- There are only eleven of them
- They are the only basis of every single enforcement by the FCA
- They justify every single intervention and expectation by the FCA

The Key Principles

- operate your business with integrity;
- conduct your business with due skill care and diligence;
- control your affairs responsibility;
- observe proper standards of conduct;
- pay due regard to the interests of your customers and treat them fairly;
- communicate with your customers in a way which is clear fair and not misleading; and
- avoid any conflict of interest adverse to the interest of customers.

Why are firms failing to do this?

- Because despite endless warnings - have senior managements over the past ten years significantly:-
 - shifted the culture of their firm away from business models focused wholly on profit?
 - completely revised the design and distribution of their products to target them - as opposed to sell them?
 - focused on the (very low) understanding of customers of the products they sold?
 - responded to what the customer would expect from a product, rather than focus on the product T&Cs?

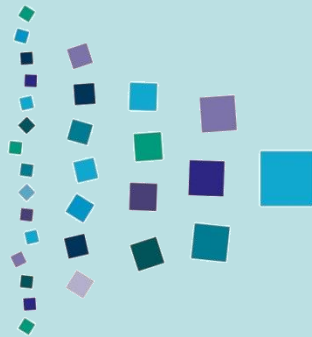
No

- They have (very largely) carried on doing what they have always done and sought to extract value (for their firms) from no longer relevant or (to regulators) acceptable distribution
- That is why – some ten years, or more, later – firm after firm (big ones as well as small ones) are finding that their business model is so far away from where it is expected to be by the regulator, that they are facing:-
 - enforcement, huge fines, redress to customers and often exit from the market; and
 - in the case of “value in the distribution chain” the disparity between FCA expectation and the **commercial reality** of locked in distribution strategies is so great that, for some firms, the gap will be too great to recover, and business failure threatens.

Thank You

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