



The Actuarial Profession

making financial sense of the future

DPB Seminar
10 April 2006

FSA Review of DPB
Supervision

Graham Farren

Why have the review?

Principles of good regulation

Risk based approach

- *Economic*, proportionate

IMD introduction in January 2005

- ARROW, risk mitigation

Relocation of DPB Relationship

New and prospective DPBs

FSA want to be aware of the risks and how to manage DPBs.

Project Objectives

To assess the risk to consumers presented both by DPBs and their firms

Review the effectiveness of current DPB supervision in the context of the FSA's supervision strategy

Make recommendations for a risk-based, cost effective and targeted approach to DPB supervision going forward

Main elements of the review

Legal advice

- FSA in-house lawyers instructed to review FSA's duties under Part XX of FSMA
- Review of past and current (at the time) activity
- Identification of regulatory gaps or regulatory 'overkill'

Research work

- To develop a regulatory model which is more risk-based and specific to DPBs
- Variable quality and quantity of information
- External research commissioned – to understand volume of ERA, products involved etc

Findings (legal advice)

Part XX of FSMA gives the FSA a general duty to:

- Keep itself informed about the way DPBs supervise exempt regulated activities and the way exempt firms carry on those activities; and
- Keep under review the desirability of exercising its powers to remove or limit the Part XX exemption

DPBs are required to:

- Cooperate with it so that it can meet the requirements

FSA has no power to 'supervise' DPBs under FSMA

- Keeping itself informed is the main requirement
- Need to be able to assure HM Treasury it is properly discharging its duties under Part XX

DPB work has been treated (in the past) as akin to firm based supervision

- FSMA requires something closer to oversight and co-regulation

Findings (research work)

Postal questionnaire to 5,000 EPFs, 20% response rate

Main headlines:

- Majority of firms do not conduct ERA
- Introductions to authorised 3rd parties and generic advice most common services provided
- <10% provide regulated advice or arrange with 3rd party advice
- Where ERA undertaken, total ERA income accounted for <1% of total gross practice income in >60% of cases
- 373 firms reported ERA income – in aggregate £1.7 million

Implications

- Our estimate for the total value of ERA business for c. 18,000 EPFs is £25-40million
- SFD supervises c. 19,000 firms with estimated £4bn turnover

Future Approach to DPB work

DPBs will not be subject to ARROW

Oversight and co-regulation

Shift to focus on risks posed by EPFs rather than DPBs

Risk assessment based primarily on revised DPB Annual Questionnaire

Less intensive relationship between FSA and DPBs should enable DPBs to become more self sufficient

Future approach to DPB work (DPB AQ)

To ensure sufficient information on ERA is received by the FSA to discharge its statutory objectives

Emphasis on numerical information to enable quantitative analysis

Will require DPBs to seek information from EPFs on an annual basis

Information from the AQ will be used in the risk assessment of each DPB

Future Approach to DPB work (DPB AQ)

Old questionnaire

- *Please describe how the DPB has exercised its regulatory functions ... in respect to ... the monitoring of EPFs*

Revised questionnaire (in relation to supervisory visits)

- Number of staff involved
- Number of visits dedicated to Part XX supervision
- Number of visits including some element of Part XX supervision
- Frequency of visits
- Number of visits where Part XX breaches identified
- Number of investigations/disciplinary proceedings commenced, completed, outstanding

Future Approach to DPB work (DPB AQ)

Old questionnaire

- *Please provide general information as to the range, scope and volume (in financial terms) of exempt regulated activities carried on by the DPB's members*

Revised questionnaire

- Number of EPFs permitted to carry on exempt investment, mortgage, general insurance business
- What ERA is being carried on
- An estimate of the volume/value of ERA
- Main practice areas from which ERA arises
- Most common financial products involved

Future Approach to DPB work (Sector Team)

Recognise many DPBs have representative as well as regulatory functions

Beneficial to build those relationships

FSA sector teams available to receive queries, enquiries, concerns and information about representative matters

Insurance sector for Institute of Actuaries

Part XX regulatory matters will continue to be managed by Retail Firms Division

- Including MoUs, European directives, reform of legal services, new DPB applications

Future approach to DPB work (Query Pro-forma)

Making it easier to do business with

Enables a proper evaluation of each issue

FSA is not a consultancy service

Consistent with FSA shift to a more principled and risk-based system of regulation

Concluding points and next steps

New approach is consistent with principles-based regulation

Aligns FSA responsibilities with FSMA

Recognises DPBs are the supervisors of their Part XX regimes

Less intensive regulatory relationship?

Next Steps

- Roll-out of revised AQ in April/May
- Consider how to gather information to complete AQ
- Revised AQ to be used for reporting the year to 31 December 2006