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(United Kingdom)



The Regulation of Pure Protection Products


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'Unregulated = Untrustworthy' ?

- Protection Products
 - FSA find no evidence of consumer detriment
 - Simple proposition capable of clear description
 - Ombudsman provides accessible efficient resolution of any dispute
- FSA duty of cost effective regulation
 - lighter touch for some products and services



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Building Confidence

- Current diverse range of regulations
- Problem of overlap or gaps in regulation
- A new regulator - FSA - rebuilding the rules
- EU directive yet to come



Potential Scope of Regulation

- Prudential - Resources
- Distribution
- Sales Process
- Communication
- Product Design and Tariffs
- Complaints
- Compensation Schemes



Supplementary Regulation

- Ombudsman's role
- Industry Codes of Practice
- Senior Management Responsibilities
(Principle 6: Customer's Interests)



The Regulatory Regimes

- Savings & Investment
- GISG
- Stakeholder
- Mortgage
- Protection
- Draft EU Intermediary Directive



Investment Regulation

- Process not outcome
- **Prove:**
 - suitability & affordability
 - product & commission disclosure
 - training & competence
- Restitution by review
- Hugely expensive & did not stop misselling
- FSA exempts Pure Protection & General




GISC

- Based on Investment - uncertain future
- Driven by insurers who:
 - trade through GISC distributors or control sale
 - overturned in court
 - disclosure of product feature & commission on demand
 - competence and training
- Audit to demonstrate adequate process



Stakeholder


- ‘Light touch’ regulation claimed
- Simple Product:- ‘controlled’ transparent terms
 - KFD - plain English guide to policy
- No margin to pay for advice
 - complex situation
 - DECISION TREES - DIY advice



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Mortgage

- Outcome Regulated
- No requirements govern distributors
- Providers have duty to disclose
- Accountable for the conduct of their distributors - Senior Management Responsibilities
- Discipline from the ombudsman
 - has good practice been followed



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Mortgage & Menu	Investment	Loan	General Insurance	Risk Insurance
Prudential	✓	✓	✓	✓
Distribution	✓	x	Part ?	x?
Communication	✓	✓	Part	Part
Sales Process	✓	x	x	x
Product	x	Part	x	x
Complaints	✓	✓	Part	Part



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Themes

- Process to Outcome
- Advice to Disclosure
- Prescription to Consumerism
 - complaint > ombudsman
 - fair and reasonable
 - following good practice
 - supplier is accountable
 - consumer responsibility?



Draft Intermediary Directive

- Register of all distributors
 - clean record & financially sound
 - professional indemnity cover
 - training & competency
 - terms of business letter - set out tied / IFA
 - reason why statement
 - complaint process with Ombudsman
- Disciplinary regime



Pure Protection---ABI Code


- Now included in COBS
- Distributors to be competent
 - developing a training regime
- Explanation of cover
 - KFD endorsed by OFT, PIAO/IOB, consumers association, PPIAB (?)
- Fit for purpose and within the means
 - decision tree (endorsed?)
 - reason why letter from a competent advisor



Is anything missing?

Investment v Protection

- Commission disclosure
 - disclose if asked
 - Product terms disclosure *
 - Affordability & suitability *
 - Training and competence *
- * in ABI code




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Cost Effective Consumer Protection

Duty of the provider

- clear product description *
- consumer decision support *
- use reliable distributor
- trained staff

* validated by OFT / FSA




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Cost Effective Consumer Protection

Duty of the distributor

- use the literature
- safeguard client money
- PI cover to meet cost of error
- trained staff



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Cost Effective Consumer Protection

Duty of the ombudsman

- was the literature clear?
- was 'good practice followed'?
- fair & reasonable?
 - did they have information to make a rational decision?
- discipline without need for costly audit



Overview

- Risk related regime
 - no audit / control cost
- Founded on generally agreed disclosure
 - clarity for simple propositions
- Policed by ombudsman
 - simple restitution
- Consumer should not abdicate interest in their own affairs



Action needed

- Training regime for protection
- Develop decision support material
- Require product disclosure
 - commission disclosure on demand
- Obtain FSA / FOS /OFT buy in.
