



Corporate Insurance Regulatory Update

FSA Policy Documents

CP 10/10: Quarterly Consultation No.24 6 April 2010

In CP10/10 the FSA invites comments on miscellaneous amendments to the FSA Handbook. It proposes amendments to, inter alia:

- The General Prudential sourcebook (GENPRU) to recognise an obligatory deduction from core Tier 1 capital and amend the clarifying guidance.
- The Insurance Prudential sourcebook (INSPRU) in relation to rules on the valuation of reinsurance cash flows when calculating mathematical reserves.
- The Conduct of Business sourcebook (COBS) to propose that, before approving promotions for an overseas person, a firm is required to take reasonable steps to ensure that the overseas person will deal with retail clients in the UK in an honest and reliable way.
- Chapter 16 of the Supervision manual (SUP) to collect more meaningful details from firms.
- Section A of the retail mediation activities return contained in SUP, with specific reference to the reporting requirements for insurance intermediaries subject to MIPRU.
- Chapter 11 of SUP to clarify when shares or voting power should be aggregated for the purpose of determining whether someone who intends to acquire or increase control needs to notify the FSA before making the acquisition.
- Chapter 10 of SUP to remove the reference to applications for approved person status generally being dealt within four or seven days, although the FSA states that the majority of applications are likely still to be dealt with within those deadlines.

The deadline for comments is June 6, 2010.

A copy of the Consultation Paper can be found at:

http://www.fsa.gov.uk/pages/Library/Policy/CP/2010/10_10.shtml

PS 09/20: Stress and Scenario Testing

9 April 2010

PS 09/20 sets out FSA expectations regarding firms' stress testing. The FSA has now produced an implementation plan template to help firms communicate their progress in preparing for the new reverse stress-testing requirement. Firms are asked to use the template to provide their FSA contact with details of their implementation plans by July 16, 2010. Some firms will also be contacted by their FSA contact on this matter over the coming weeks.

A copy of the Implementation Plan can be found at:

http://www.fsa.gov.uk/Pages/About/What/International/stress_testing/index.shtml

CP 10/11: Implementing Aspects of the Financial Services Act 2010

26 April 2010

CP10/11 describes FSA policy relating to certain provisions of the Financial Services Act 2010 (the Act).

These policies cover:

- Using the short selling disclosure rule-making power (chapter 2).
- Using the power to impose financial penalties on those who breach short selling rules (chapter 3).
- Using the power to suspend firms and individuals (chapter 3).
- Using the power to impose financial penalties on individuals who have carried out controlled functions without approval (chapter 3).
- Using the financial stability information gathering power (chapter 4).
- Altering the Fees Manual to give the Financial Services Compensation Scheme the power to levy for management expenses incurred when acting on behalf of another compensation scheme — if it cannot recoup those expenses from the other compensation scheme — and to reflect the Special Resolution Regime funding changes (chapter 5).

The deadline for comments is June 25, 2010.

The FSA will publish a separate consultation paper on remuneration issues by the end of Q2 2010.

A copy of the consultation paper can be found at:

http://www.fsa.gov.uk/pages/Library/Policy/CP/2010/10_11.shtml

Other FSA Publications

Financial Services Act 2010

9 April 2010

On 8 April 2010, the Financial Services Act 2010 received royal assent.

The FSA has issued a short statement stating that the Act will give rise to a number of changes to its objectives, powers and duties. The main changes are:

- A new financial stability objective for the FSA. This includes a duty for the FSA to determine and review its financial stability strategy, in consultation with the Treasury.
- The FSA is required to establish a new consumer financial education body.
- The FSA is given further enforcement powers including the power to suspend individuals, and firms, along with the ability to fine those who are carrying out a role that needs FSA approval without the necessary approval being in place.
- The FSA having the power to specify that remuneration agreements in breach of its remuneration rules are void.

The FSA has also published a new web page on the Act, on which the FSA sets out the timing for different parts of the Act to take effect. The financial stability objective and the duty to create a consumer financial education body will come into effect immediately. The duty to make rules regarding remuneration policies and recovery and resolution plans (living wills), and the power to make rules on short selling and enforcement powers will come into force two months after the Act is passed. The power to make consumer redress scheme rules and the requirement regarding publishing decision notices will take effect upon a Treasury commencement order.

A copy of the Statement can be found at:

<http://www.fsa.gov.uk/pages/Library/Communication/Statements/2010/act2010.shtml>

Solvency II - IMAP Update

9 April 2010

The FSA has published its latest Solvency II IMAP update. This update provides information to assist firms with their preparations for the 'pre-application' phase of the internal model approval process. It follows earlier papers setting out the FSA's approach to internal model approval under Solvency II.

A copy of the Update can be found at:

http://www.fsa.gov.uk/pubs/international/imap_update_april.pdf

Report on Resilience Benchmarking

13 April 2010

The report sets out the findings of the resilience benchmarking survey for the insurance sector. The survey addresses three main questions:

- How resilient would the insurance sector be if faced with a major operational disruption (such as terrorist attack, severe weather or a flu pandemic)?
- How quickly could it recover?
- What needs to be done to improve its resilience?

The survey found that insurance firms appear to be making good preparations in areas such as providing for staff welfare during a disruption, and in the level of testing carried out. However, the survey also highlighted several key areas in need of attention and improvement, namely, recovery timeframes, risk assessments, third party involvement, outsourcing, third party providers, security and funding.

A copy of the Report can be found at:

http://www.fsa.gov.uk/pubs/other/res_bench_report_v2.pdf

General Insurance Newsletter

27 April 2010

The FSA has published the latest edition of its General Insurance newsletter which covers:

- Gearing up for Solvency II.
- Stress and scenario testing.
- The FSA's view on key risks for general insurers.
- Update on the Competition Commission's PPI reforms.
- Threshold condition 4 — adequate resources.
- Climate change (focus on flood related cover).
- Client money and assets.
- Resilience benchmarking.
- Third party capture.
- Recent FSA enforcement cases.
- Upcoming FSA events.

A copy of the Newsletter can be found at:

http://www.fsa.gov.uk/pubs/newsletters/gi_apr10.pdf

Life Insurance Newsletter

27 April 2010

The FSA has published the latest edition of its Life Insurance newsletter which covers:

- The FSA's view of key risks.
- Solvency II.
- Stress and scenario testing.
- With-profits.
- Mutual capital.
- Enhanced capital notes.
- Resilience benchmarking.
- Reinsurance and INSPRU.
- News roundup.
- FSA enforcement.

A copy of the Newsletter can be found at:

http://www.fsa.gov.uk/pubs/newsletters/life_ins1.pdf

Europe

European Commission - Financial Conglomerates Directive Review

9 April 2010

The European Commission has published feedback on its consultation regarding the review of the Financial Conglomerates Directive.

Respondents broadly welcomed the initiative and recognised the major issues with the FCD as outlined by the commission, as well as the commission's suggestions to solve them. However, there were divergences concerning the commission not taking up the industry's main concern, namely the cross-sectoral alignment in the definition of capital.

Further information about the Financial Conglomerates Directive can be found at:

http://ec.europa.eu/internal_market/financial-conglomerates/supervision_en.htm

Solvency II

CEIOPS – Level 2 Advice on Calibrations

15 April 2010

CEIOPS has published an exhaustive calibration paper which is the main supporting document for its Level 2 advice on calibrations. The paper provides background information and compiles all the technical analysis carried out by CEIOPS in calibrating the SCR standard formula, as well as key parameters for the calculation of the Technical Provisions.

The European Commission has developed the draft technical specifications for testing the overall impact of L2 measures in QIS5. The draft QIS5 technical specifications published today by the European Commission may deviate from the calibration paper and L2 advice as they are built upon CEIOPS advice, stakeholders' input and the Commission's own work.

CEIOP's Press Release on the paper can be found at:

<http://www.ceiops.eu/media/files/pressreleases/20100415-CEIOPS-press-release-Calibration-Paper-Solvency-II.pdf>

Further information

If you would like further information on any issue raised in this update please contact:

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