Guernsey Financial Services Commission

Insurance Division – Address by John Dunford, Deputy Director of Insurance, 20 October 2011 – Intermediaries

Retail Distribution Review

Good afternoon ladies and gentlemen. I would like to reiterate Jeremy's welcome and thank you for coming today. I also recognise that a number of you attended this morning's cross-divisional presentations which I hope you enjoyed and found informative.

In Jeremy's opening "State of the Nation" presentation he referred to the Retail Distribution Review (commonly referred to as RDR or RFA in Jersey) as the main policy issue affecting yourselves that is being considered this year. RDR is a key part of the FSA's consumer protection strategy.

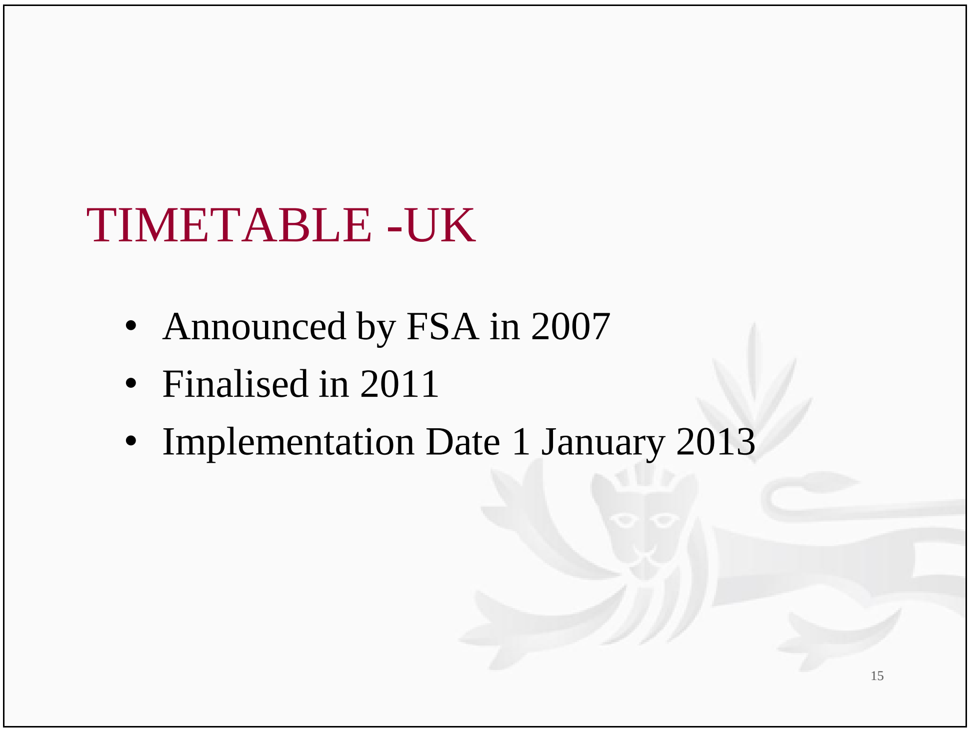
I would also re-iterate all the caveats in Jeremy's speech about our so far having reached only in an internal view in the Insurance Division. This is of course not immutable and there are several practical issues that we still have to look at in detail. It is also not the only option and we want to keep these open. We understand there are other options and we will help articulate these in the eventual consultation paper – and we will keep looking at them. However, it would be odd if, by now, and having talked to several on this, we did not have our own view on this. If we were ourselves still in great doubt about the way forward then that is what we would be now telling you. But, at least within the division, we feel that we are not. So here it is.

In our view Guernsey should not fall behind the UK in this key area of Consumer Protection. This is particularly true especially as Guernsey does not currently have the four consumer protection "pillars" found in other jurisdictions being a financial ombudsman, investor protection scheme, statutory cooling-off periods and primary consumer protection legislation.

There are of course other factors to consider here – not least business and market questions. But we don't think – not least on the basis of our survey findings – that these would be adversely affected. Of course we acknowledge that we are only at the beginning of considering this.

Consequently, although the 2010 IMF FSAP review confirmed that Insurance Core Principles 24 & 25 relating to Intermediaires and Consumer Protection are observed in Guernsey, the Insurance Division shares the concerns of the FSA with regard to the long term insurance advice industry. There is a steady stream of consumer complaints in connection with the provision of advice and charges levied by both advisers and providers.

So what is the FSA proposing and why?



The concept of RDR was first announced by the FSA in 2007.

Their proposals have now effectively been finalised

The implementation deadline has been set for 1 January 2013

The FSA's key proposals are:

- Improve the clarity with which firms describe their services to consumers between independent and restricted advice. Independent relates to advisors who have access to the whole market whilst restricted means anything less than independent.
- Improve the sustainability of the market by increasing the Minimum Capital requirement for advisors
- Address the potential for the current, commission based, remuneration model to bias advice by enforcing a change to an agreed fee based model; and
- Increase the professional standard of advisors by requiring them to hold a Diploma level qualification rather than the current Certificate level qualification.

We believe that Guernsey's existing regulatory framework , which includes the Codes of Practice for Authorised Insurance Representatives and Minimum Capital Requirements, already adequately addresses the first of two of these points.

However increasing professional standards together with fee based charging requirements will contribute significantly to greater Consumer Protection.

So how about costs of the RDR? Our sense is practice is that most intermediaries have already moved towards fee transparency. So not much cost there. The main cost will be the exams – and we need to look at this more. For instance, can the industry afford to set up Guernsey exams? But cannot this be defrayed by passing the UK exams – even if they are not bespoke? And what about the cost of not being RDR-compliant vis-a-vis UK insurers? All these things need to be looked at.

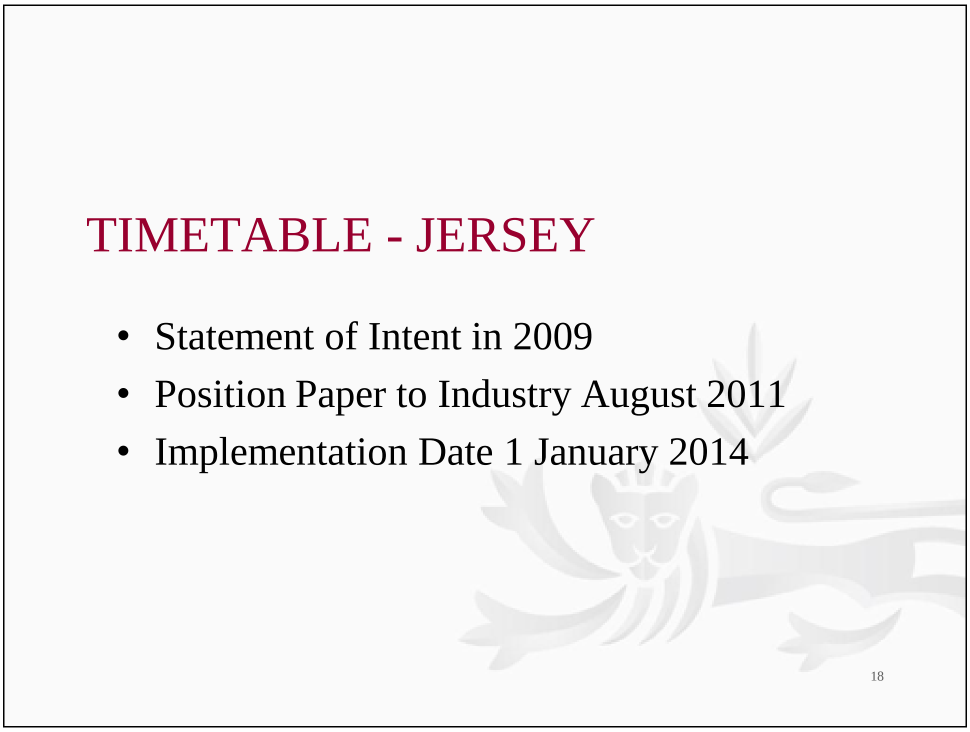
Timetable

The FSA is working to a timetable of implementing the RDR by 1 January 2013.

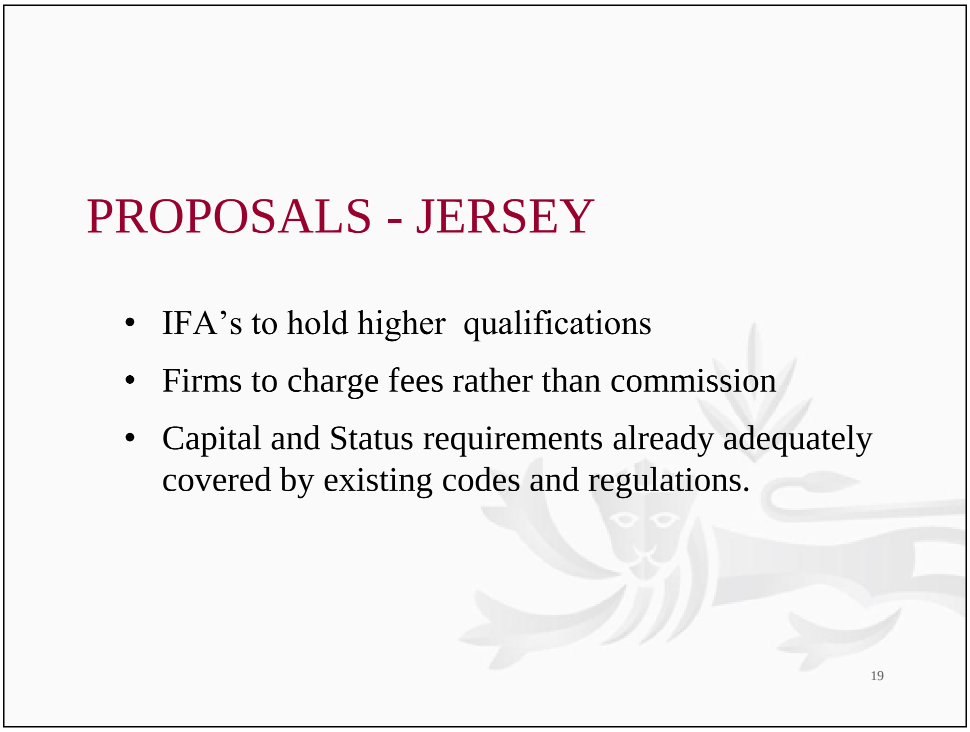
By that date advisors will need to:

- Hold a Statement of Professional Standing, an SPS, issued by a body accredited by the FSA
- Hold an appropriate qualification of at least Diploma level 4 standard or have completed gap fill depending on any qualifications already held
- Charge fees rather than commission although trail fees can continue unless and until any change in the underlying product.

It is not clear whether UK product suppliers will maintain commission remuneration systems or continue to deal with overseas AIR’s who do not hold adequate qualifications post the RDR implementation date.



Jersey and the Isle of Man have already made position statements that they will introduce the equivalent of RDR on 1 January 2014.



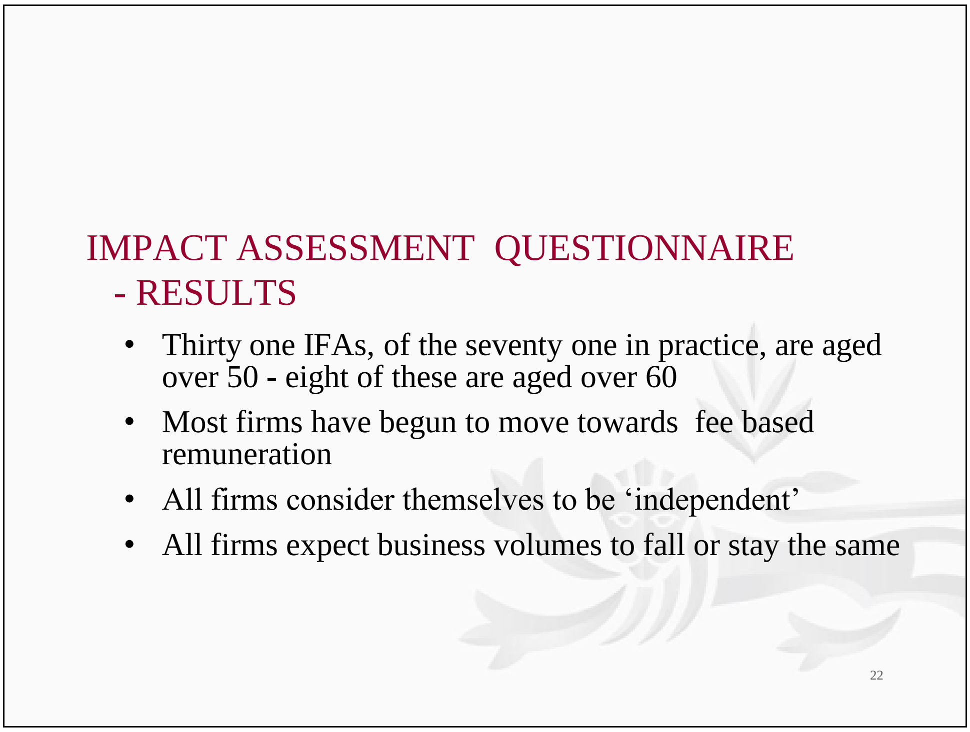
Their focus is also on fee based charges and qualifications.

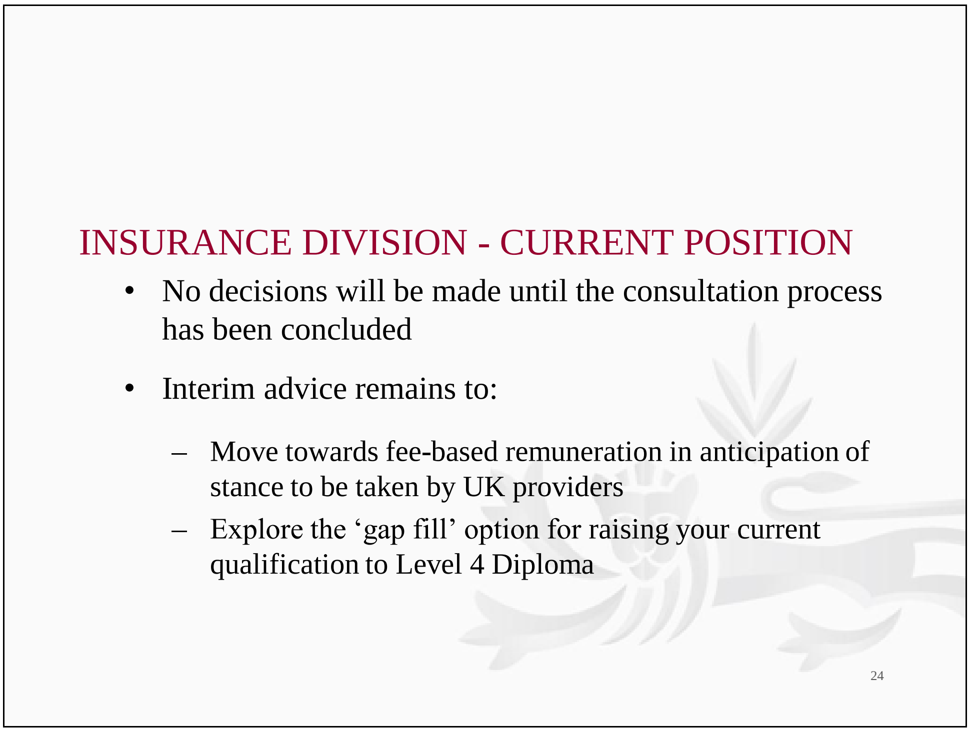
TIMETABLE - GUERNSEY

- Watching brief since 2008
- Impact assessment questionnaire - July 2011
- Out for consultation - Late 2011/2012

IMPACT ASSESSMENT QUESTIONNAIRE GUERNSEY

- Sent to all intermediaries including those solely advising on general insurance products
- Eighteen firms employing 71 IFAs responded
- Three IFAs currently hold the necessary qualification and three more are known to be studying





With this in mind the Guernsey Insurance Division undertook an impact assessment survey in July of this year. This followed informal meetings with individual firms and advisors and the Bailiwick Insurance Intermediaries Association representatives.

18 firms employing 71 AIR's responded. The majority of firms have already begun to change their remuneration models to reflect the changes in the UK and are adopting fee based charges. The area of most concern, as expected, is that of qualifications. Of the 71 practising

AIR’s only 3 currently hold the necessary qualifications with a further 3 studying to obtain them.

There is the option of qualification gap-fill . This does not mean more exams but structured learning to complete any gaps. In fact our own David Quick has decided to undertake this route and is well on the way to filling his gap although I understand it is quite a large gap! But we recognise that this is an important are and that we will need to work hard to a business-friendly solution to this. Your views and thoughts are very welcome!

AIRS’s to hold higher , Diploma Level 4 qualifications

Firms to charge fees rather than commissions

If Guernsey does follow the RDR route no amendments to primary legislation are thought necessary. This is good and it makes life easier. Of course this does not mean that the political establishment will not have a big role to play.

The IMIIL Code of Conduct for Authorised Insurance Representatives will require amendment to reflect any change to fee based remuneration and the restriction of the receipt of trail commission to existing contracts. A definition of 2pure protection” will also need to be provided. The IMIIL Conduct of Business Rules will require similar amendment.

Codes will only be, and can only be, amended by the Commission following consultation with industry.

Next Steps

- Continue to monitor requirements of the FSA concerning the UK RDR
- Continue to liaise with Investment Division with regard to the Commission’s approach to RDR
- Liaise with Jersey and Isle of Man to ensure consensus in approach and deadlines
- Commission to set out options and possible recommendations
- Consultation with Industry

- Process role of political establishment to be decided

Finally of course I should emphasise that the final decision on RDR is in practice a societal one; and not just for the Commission.