

Regulatory Update

Dear CEO letter: LLMI Portfolio



About this update

The FCA has issued the letter (available here) on 3 November 2020, outlining its expectations of the relevant firms, as well as to outline its Supervision Strategy.

What firms must do...

We strongly recommend that all FCA regulated firms in the insurance sector read, consider and action the content of it (as required). Firms captured by this letter has to “*be able to explain what [has been done] in response to this letter*” should the FCA engage with them.

Key considerations for firms...

The FCA explicitly states in the letter that they have identified key drivers of harm, namely:

1. Financial Resilience and Orderly Wind-down
2. Ineffective governance and oversight
3. culture and non-financial misconduct
4. Business models with poor oversight of distribution chains

We are confident that the 4 points look extremely familiar, mostly as shortfalls in those areas have been repeatedly referred to by the FCA.

Financial resilience and orderly wind down

The remain vigilant for the harms posed by firms who fail to meet the capital requirements under MIPRU and the threshold conditions for authorisation to maintain appropriate and adequate financial resources.

Next Steps

As a general approach, all firms should ensure that they review for relevance and impact of any material developments that could affect a business model, including significant changes in market or economic conditions; so to ensure that firms can continue to meet the capital requirements under MIPRU 3 and Threshold Condition 2.4 (and PII requirements).

Firms should consider the requirements (or guidance) published by the FCA on 17 April 2020 in the *FCA expectations on financial resilience for FCA solo-regulated firms' paper*, with key focus on *wind-down arrangements*.

Governance and Oversight

In the letter, the FCA has re-confirmed the critical components of good governance, being:

1. Clear accountabilities
2. Robust risk framework
3. Strong Board oversight

As somewhat naturally, the FCA also confirmed that the SM&CR regime allow them to take a more interventionist approach if they see failings in the future.

Next Steps

As a starting point, firms should ensure that the SM&CR compliance is robust and practical. In particular, delegation and oversight is appropriately documented and staff involved in such delegation are both competent and appropriately resourced.

Just as a note, the implementation period for the Certification Regime has been extended to March 2021.

Culture and non-financial misconduct

The FCA expect firms' culture and governance to drive good behaviours and produce fair outcomes, and for individuals to be accountable for their actions. The Dear CEO letter published on 6 January 2020 sets the FCA's expectations for this area. Poor culture in financial services is a root cause of the major conduct failings that have occurred within the financial services industry in recent history, causing harm to both consumers and markets.

Next Steps

We remind firms of the FCA's previous Discussion Paper on *Transforming Culture in Financial Services* in March 2018. Firms need to be able to show how they have incorporated it into their thinking on culture within their business and to demonstrate that they are working in the interests of consumers and the market.

Business models – GI distribution chain

The FCA expect all firms to have implemented and embedded the requirements set forth by IDD, however they have seen evidence within portfolios where business models employ elongated distribution chains, with poor product oversight both in design and purpose. This could, in turn, result in poor-value products being distributed and cause direct customer harm.

Next Steps

We strongly encourage firms to review the distribution chains and product development (in line with PROD rules) to ensure products continue to deliver the intended values. This review should include and consider all players of the distribution chain (eg, after adding all broker fees, commissions, etc).

For product distributors, we recommend to review the relevant distribution policy to ensure that the relevant processes are in place to obtain the required product information prior distribution.

Note section

You may use this section to take notes of key actions or assessments and file it for your record keeping.

Key Publication

- *Dear CEO letter (LLMI Portfolio)* ([click here](#))
- *FCA expectations on financial resilience for FCA solo-regulated firms'* ([click here](#))
- *Transforming Culture in Financial Services* ([click here](#))



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