Motor insurance

P94: October 2012 edition

Web update 1: 29 April 2013

Please note the following update to your October 2012 edition of the P94 study text.

1. Regulation of the UK insurance industry

Following the implementation of the Financial Services Act 2012 on 1 April 2013, the regulatory reforms described in Chapter 6 section A3 (final paragraph) have now come into force and the FSA has been replaced. References in the P94 text to the Financial Services Authority (FSA) should therefore be read in the light of the following update:

- **The Financial Conduct Authority (FCA)** is now a separate, independent regulator responsible for the regulation of conduct of business and market issues for all firms. It will also take responsibility for the prudential regulation (capital adequacy/solvency etc) of small firms such as insurance brokers and financial advisory firms.

- **The Prudential Regulation Authority (PRA)** sits within the Bank of England and is responsible for the prudential regulation, stability and resolvability of systemically important financial institutions such as banks, building societies and insurers (i.e. institutions that would pose a risk to the financial system if they were to fail).

- Insurance companies (both general and life) will therefore be subject to authorisation and prudential regulation by the PRA, and conduct of business and market issues regulation by the FCA. Insurance brokers will be authorised and regulated by the FCA for both prudential matters and conduct of business.

- **Lloyd’s**: the Society of Lloyd’s and Lloyd’s managing agents will be dual regulated, i.e. prudentially regulated by the PRA, and for conduct of business and market issues they will be regulated by the FCA; whilst Lloyd’s members’ agents and Lloyd’s brokers will be solely regulated by the FCA (i.e. for both prudential matters and conduct of business).

- The FSA Handbook has been split between the FCA and PRA to form new Handbooks and references to FSA have been replaced with the appropriate regulator. The Insurance conduct of business sourcebook (ICOBS) from the FSA Handbook has been carried over into the new FCA Handbook.

- The FCA’s objectives have been finalised as:
  - **Consumer protection**: securing an appropriate degree of protection for consumers.
  - **Integrity**: protecting and enhancing the integrity of the UK financial system.
  - **Competition**: promoting effective competition in the interests of consumer in the markets for regulated financial services and services provided by a recognised investment exchange

- In addition the FCA will be responsible for the Financial Services Ombudsman Service (FOS). It will also take forward the Treating Customers Fairly (TCF) initiative.

- The PRA has a primary objective to ‘promote the safety and soundness of PRA regulated persons’.

- It also has a specific insurance objective ‘to contribute to the securing of an appropriate degree of protection for those who are or may become policyholders’.

- Finally, the **Financial Policy Committee (FPC)** is a committee within the Bank of England responsible for watching for emerging risks to the financial system as a whole and providing strategic direction for entire regulatory system. It will have the power to use ‘macro-prudential’ tools to counteract systemic risk, these might include enforcing particular capital requirements for a given asset class.

**Useful website**

Take a look at the new regulators’ websites in order to familiarise yourself further with the new regulatory structure in the UK:

www.fca.org.uk and www.bankofengland.co.uk/pr

Both the FCA and PRA Handbooks can be accessed from: www.fca.org.uk
Principal text references affected by this update are:

Chapter 1, section D1C, page 1/15
As a result of the enactment of the Financial Services Act 2012, insurers will now be authorised and regulated for prudential matters (capital adequacy/solvency etc) by the PRA, and regulated for conduct of business by the FCA.

Chapter 3, section A2, page 3/3
Rules of fairness column: amend FSA references to ‘FCA’ (which will take forward the TCF initiative).

Chapter 6, section A1, A3 and B6 (pages 6/2, 6/5, 6/18)
The ICOBS sourcebook is now part of the FCA's Handbook.

As discussed in chapter 4 section C2A, the Law Commission has been reviewing insurance contract law over the past few years. The Consumer Insurance (Disclosure and Representations) Act 2012 has now come into force (from 6 April 2013) and so its requirements, as discussed in section 4C2A, are now a legal requirement.

Draft legislation covering business insurance disclosure and other aspects of insurance law (such as post contract duty of good faith and breach of warranty) is expected by the end of 2013.

3. Amendments to websites
Please note the following amended website addresses:

Chapter 2, section C3A, page 2/11

Chapter 2, section E4, page 2/13

Chapter 5, section B1G, page 5/6
Amend this to read: www.justice.gov.uk and search for the Jackson review

Chapter 6, section A1, page 6/2
Amend FSA website to: www.fca.org.uk

4. Key points, chapter 4, page 4/23
Misrepresentation and disclosure, bullet point no 4 lines 3 & 4: amend as shown in bold type:

These feature in the FCA ICOBS rules (which apply to retail customers, as defined) and have been codified by the Consumer Insurance (Disclosure and Representations) Act 2012 which came into force on 6 April 2013.